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## POLITICAL

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storm under the pretext of establishing a "modern enterprise system," or transforming enterprises into "corporations." This storm has brought about the leasing, sale, change, or transformation out of existence of numerous state-owned medium and small enterprises. Many of them were, in fact, changed from public to private ownership, and some were taken over by foreign businessmen. If this situation continues, the means of production may be privatized. Ultimately, the principle that the CPC Central Committee has continuously maintained that the key component of socialism must be public ownership will become an empty phrase. It must also be noted here that in many places nominally collectively owned township and town enterprises practice a plant manager individual contract system, most of the profits going to the plant manager. They are public in name but private in practice. Some places that formally practiced a collective contracting system have also changed. The question is very clear: if we do not rigorously uphold the principle of public ownership being the main component of socialism, and allow privatization to develop further, the broad masses of workers and peasants will lose their status as masters in their own house. In addition, the livelihood of millions of retired workers and staff, and of workers in mines and plants that have halted or semi-halted production will become very difficult. It will be impossible for society to remain stable. This element for instability deserves even more serious attention.

In addition to the above two problems, there are also some economic factors for social instability. Examples include the following: A situation of disparity in individual income brought about by unfair distribution is developing. The task of improving the livelihood of 800 million impoverished peasants still requires very great effort, yet certain agricultural products are already in decline. The loss of state-owned assets is extremely alarming, and the problem of matching development speed with returns has not yet been solved. Virtually every large and medium size city is vying to put up tall buildings and high-rise mansions for purely consumption purposes. The general availability of bogus and shoddy products in markets causes dissatisfaction, etc. Unless these problems are handled properly, they too may become elements for instability.

Second, let us talk about political matters. The Central Committee has repeatedly emphasized struggle against

Party style, and change the social atmosphere. This is not the only problem. In cities today, some concerns are still abusing authority for personal gain, or using various tactics to cause trouble for the public. In rural villages, some grass-roots cadres commit illegal acts such as riding roughshod over the people or asking for money. These things have not been effectively halted. Some personnel from law enforcement organizations also engage in corruption, or even consort with criminal elements providing them shelter, thus causing the public more pain. Unless corruption is rooted out, the people's feelings cannot be calmed, and the Party's leadership and prestige will be impaired. This is a very great element for instability.

Yet another element for instability in the political realm is that some jurisdictions allow the lesser public good to crowd out the greater public good. They allow the lesser public interest to damage the greater public interest. Consequently, the plans, policies, and important measures that the Central Committee draws up cannot be put into effect. On the pretext of making the most of local strengths, and using "to get rich first is glorious" as a slogan, leading Party and government cadres in some jurisdictions do as they please, do not carry out orders, and do not cease prohibited actions. They have no sense of the overall interest, and they treat the law and Party discipline with indifference. If this situation is allowed to continue, very great harm will result. The continuation of decentralization and parochialism will turn into separatism.

Finally in the ideological realm, a bourgeois liberalization ideological trend has risen once again. Publicizing privatization of the means of production as the main theme, recently some people have taken reform of the property rights system as an excuse for openly broadcasting that the market economy must change the public ownership system, instituting private ownership. A famous article that JINGJI RIBAO published not long ago declared that "reform of the state-owned economy should emphasize not only 'reform,' but also 'leasing,' 'selling,' and 'changing.'" The same newspaper also published the views of a certain economist, stating that "public ownership does not equate to state ownership," that "state owned enterprises have very many faults, and that they are owned by the whole country in name when actually they are nothing but appendages of state administrative organs," and that "adapting them to the market economy poses very many

Tiananmen Square is still a vivid memory. Both the country and the people want stability, and they also want public opinion guidance that abides by the four basic principles, is in keeping with the overall interest, and that promotes social and political stability. All views that harm overall stability should be corrected.

The above discussion was about the elements for instability in various realms within the country. Meanwhile, the danger from the peaceful evolution strategy being carried out by reactionary forces abroad has not only not weakened, but is being carried on covertly as different problems appear within the country. Some people suppose that countries like the United States and the UK are experiencing countless difficulties picking up the pieces in the wake of the collapse of the USSR and eastern Europe, that they have relaxed about China, and that they want to link hands with China to build a stable and unified world. This is a naive and ignorant notion. It purposely ignores the fact that the international class struggle has not eased. It should be very suspect.

The source of our various present elements for instability is a question that merits earnest study. The reasons are numerous, no doubt, and solving problems will also require varying the prescription to fit the specific illness. However, the matter that merits most attention is the elements for political instability. After the "June 4th" 1989 political disturbances subsided, Comrade Deng Xiaoping said that the roots of the trouble lay with a number of people who had different ambitions. The first was to overthrow the CPC, and the second was to topple the socialist system. These people used slogans opposing corruption as a foil, when realization of these two goals were at the heart of the matter. He also said that "if any mistake was made it was insufficient thoroughness in upholding the four basic principles, failing to use them as the basic thought in teaching the people, teaching the students, and teaching all cadres and members of the Communist Party. The character of this incident was that of a confrontation between bourgeois liberalization and the four upholds." (*Selected Works of Deng Xiaoping*, Vol 3, p 305).

We should firmly bear in mind Comrade Deng Xiaoping's instructions to guard against and eliminate the elements for political instability that damage the four basic principles. Of course, in handling political questions, one must

handle contradictions among the people," seeking the answer in the fount of ideology. Comrade Mao Zedong said that "the ideology of the bourgeoisie and the petit bourgeoisie is bound to be reflected. It is bound to be reflected on political issues and ideological issues." (*The Selected Works of Mao Zedong*, Vol 2, p 787). The reason CPC members who have not reformed fairly thoroughly, including some leading cadres, frequently make mistakes, or sometimes do bad deeds, is a reflection and an expression of outbreaks of non-proletarian ideology (which includes feudal ideology here). Unless such people are rigorously and diligently educated ideologically and politically, including use of the "criticism-unity-criticism" formula and the approach of "learning from past mistakes to avoid future ones, curing the sickness to save the patient," they will be unable to uphold party spirit and serve the people wholeheartedly. They will be far removed from the masses, will act like high officials and overbearing bureaucrats, and may even seek only personal gain. They are seriously divorced from the masses. If these people go down the wrong road, they may forfeit their designation as CPC members. In March 1989, Comrade Deng Xiaoping said: "Our biggest mistake in education during the past 10 years was failing to pay sufficient attention to the political and ideological education of young people. We did not develop education sufficiently. (*Selected Works of Deng Xiaoping*, Vol 3, p 287). This is very true. However, events during the past five years show that ideological education—this "biggest mistake"—has not been corrected. This is a problem meriting very great attention.

In the article cited above, Comrade Mao Zedong said something that astounded the world, namely that "the proletariat must transform the world according to its own world view. The bourgeoisie should also transform the world according to its own world view. In this matter, the problem of who will win and who will fail, socialism or capitalism, has not yet been truly resolved." (*Selected Works of Mao Zedong*, Vol 2, p 785). These words are by no means out of date today. If we only conscientiously think about today's realities, we will understand why.

#### Discussion on Leftists, Rightists

94CM0312A Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 5, 15 May 94 pp 7-11

**Comrade Deng Xiaoping.** Deng Xiaoping points out: "In modernizing, in reform and opening, there will be problems of 'leftist' and rightist interference." 1) This is a scientific conclusion that Comrade Deng has drawn from the strategic plane of the future and fate of the cause of socialism, and is based on the summing up of the historical experience of China's socialist victories and setbacks and the drawing of lessons from the historical experience of the rise and fall, and success and failure of socialism in other countries. Practice proves that whether or not one correctly comprehends and grasps the essence, meaning, and limits of rightism and "leftism," whether or not one successfully eliminates right and "left" interference, never waives in steadfastly maintaining the party's basic line for one hundred years, and continuously pushes forward with the cause of constructing a socialism with Chinese characteristics, possess great significance.

remaining in upholding the Marxist-Leninist principles of the past, bookish dogmatic understanding, or remaining in some unscientific and even completely distorted past understandings of socialism, or remaining in incorrect thinking and policies of the period prior to reform and opening that went beyond that of the early stages of socialism. Such thinking does not use Marxist-Leninist positions, viewpoints, and methods to analyze the changed nature of objective reality, for this reason denies reform and opening, and considers the major risk of peaceful evolution as coming from the economic realm, while believing that engaging in reform and opening will bring in and develop capitalism. It even uses thinking involving "class struggle as the key link" to influence and strike at economic construction.

When we hear the phrase "rightism can ruin socialism,"

were under the influence of 'leftist' thinking, a certain mental bent has formed in peoples' conceptual thinking, and they believe that 'Left' is better than 'Right,' and that 'Left' is an issue of method, while Right is an issue of position, rather 'Left and not Right,' hence this has created an inadequate estimation of the harmfulness of the 'Left' and a weak inability to oppose the 'Left' and protect the 'Right,' cause repeated errors when it comes to the 'Left.' In the history of our party, 'Right' and 'Left' have both created huge losses for the revolutionary cause, but comparatively speaking, the 'Left' has created the most profound harm, with the greatest losses. Deng Xiaoping points out: How terrifying are the things of the 'Left' in our party's history! Take one perfectly good thing, and they will quickly get rid of it." 4) During the period of the democratic revolution, "Left" deviation errors in controlling the overall situation occurred on three occasions, and each created major losses for the party and the revolutionary cause. In the period of the building of socialism, it was again "leftist" errors which genuinely created an overall disastrous situation for a long period. From 1957 until prior to the Third Plenary Session of the Thirteenth Central Committee, "Left" deviation errors from start to finish occupied a leading position. It is just as Deng Xiaoping has summarized: In the socialist period our losses have primarily come from the "Left" aspect, and the affairs of the "Left" began in 1957. This "Left" situation lasted up until 1976, for a long period of time, nearly a full twenty years. 5) "Starting in 1957, our major mistakes were of the 'Left,' and the 'Cultural Revolution' was extreme leftism. Chinese society during the twenty year period from 1958 to 1978 in reality was in a stagnant and wavering condition, and the nation's economy and people's livelihood did not achieve much development nor increase." 6) Today, denying reform and opening, and labeling reform and opening as attracting and developing capitalism, attempting to return to repeat the models of the past, these then are the stuff of the "Left." Whatever sort of intentions those of the "leftist" ilk harbor, whatever sort of banner they flaunt, all lead people down a blind alley, and in the end this will ruin socialism. In 1978, when Comrade Deng Xiaoping first proposed reform, he incisively pointed out: "if now we do not implement reform, our undertaking of modernization and our socialist cause will be ruined." 7) For this reason, no matter whether looked at historically or from the point of view of reality, rightist thinking can ruin socialism, and "leftist" thinking can also ruin socialism. In terms of ruining socialism, there is no difference between "Left" and Right. Concepts such as considering "Left" to be better than Right, "Left" to be

and possess inherent laws. To not recognize the mutual links between objects, and to not recognize the internal relations of objects, does not objectively and thoroughly reflect reality, and under these conditions, is only a subjective and one-sided or superficial view of them, and must inevitably lead to subjectivism and idealism. Right and "Left" are both incompatible with Marxism-Leninism. Upholding dialectical-materialism, and opposing subjectivism and idealism is a long-term task of those on the ideological and theoretical front lines. Within the party, in the first place stand the leading cadres, who must encourage study of materialist dialectics, in order to progressively raise their ability to distinguish between Right and "Left," and strengthen their level of political consciousness to oppose and protect against rightist and "leftist" thinking.

**2. In today's China it is necessary to be vigilant against the Right, but the primary task is protecting against the "Left"**

"China must be vigilant against the Right, but the primary task is protecting against the 'Left.'" This is the strategic guiding principle for advancing on a two front struggle that Comrade Deng Xiaoping has proposed, and it comes out of China's history and reality, and from the missions of reform and opening, and modernization. The Right basically opposes China walking the socialist path, and advocates adopting capitalism. We must constantly be vigilant against rightist thinking, and can never ignore it. Throughout the primary stage of socialism, the influence of rightist thinking will exist for a long period, and will interfere with the progress of our reform and opening and modernization. For this reason, throughout the process of reform and opening and modernization, we must be vigilant against rightist thinking, and must consistently uphold the Four Cardinal Principles, and oppose bourgeois liberalization. At the same time, we must adhere to the teachings of Comrade Deng Xiaoping, and understand the at present the major task to protect against "leftist" thinking. Why do we say that at present the major task is to protect against "leftist" thinking? This is because "leftist" thinking is a deep-rooted force of habit, a serious inertial force that is difficult to overcome. Under the new historical conditions, it often emerges in varied forms, and becomes a major obstacle and resistive force to the thorough implementation of the party's basic line, the acceleration of reform and opening, and constructing socialism with Chinese characteristics. And what makes "leftist" thinking a deep-rooted chronic and stubborn disease, and a force of habit, lies in its deep-seated social origins.

position of small-scale producers became the primary social base for the creation and existence of the "Left." The socio-economic position held by the small-scale producer soon determined his fondness for going to extremes, and for subjective one-sidedness, the ease with which he resorted to fanaticism, and the ease with which was engendered an idealist outlook. This is the deepest and widest source of the things of the "Left" in China, and is also social origin of the continuously occurring and often repeated mistakes of the "Left." Under this type of social and historical conditions, the social base of the "Left" and the well spring of their thinking has a much deeper base in China in comparison to the capitalism that is the base and well spring of the things of the Right, and its influence is necessarily much stronger. Though they are petty bourgeoisie who have passed through the stage of socialist transformation, and their economic position has undergone fundamental change, in accordance with the principle of social consciousness lagging social being, the influence of "leftist" thinking cannot be immediately eliminated. For this reason, Deng Xiaoping points out that "we cannot ignore the mistaken thinking of the 'Left,' its roots are very deep." 8) As the roots are deep, "'leftist' thinking has already become a force of habit." 9) This tells us that in China "leftist" thinking has a deep social foundation, and only by firmly and unshakably deepening reform, and using a socialist market economy to destroy the layered embankment of small producers, and thoroughly implementing the social transformation 'o large-scale production, will it be possible to finally dig out the roots of "leftist" thinking.

Second, the historical sources. The victory of China's revolution was achieved through a long period of revolutionary struggle. This is a characteristic and an advantage of China's revolution. However, due to the fact that for a long period we were in a situation where the revolutionary struggle was based in the countryside, it was also not difficult to take those principles and experiences which

construction and revolution, and obscuring the differences between governing a country and obtaining political power are a major source of the errors perpetrated by "Left" deviation for a long period of time during construction of the country.

Third, the sources in the current system. In the past, due to the long period of the influence of "leftist" thinking, we absolutized, and solidified the Soviet socialist model, and had an ossified understanding of some principles of socialism. For example, when it came to the socialist system of public ownership we were only able to come up with the two forms of state ownership and collective ownership, and a socialist economy meant a planned economy, etc. Reality proves that with this system there are many abuses, and it must be reformed. It makes the life of the society subject to the will of senior officials, divorced from the masses, divorced from reality, and engenders bureaucratism, formalism, and subjectivism. It is under the protection of just this type of old system that the things of the "Left" "carry a revolutionary color," and "it is much the case that the more 'Left' there is the more revolution there is." The "Left" uses this confusion to conceal the harmfulness of the "Left," and make people lose the ability to be vigilant against the "Left" and able to distinguish things of the "Left." The old system and the viewpoint of the "Left" are two mutually influencing conditions, and depend upon each other for existence. Deng Xiaoping points out: "at present China has few people who oppose the revolution, but when drafting and implementing concrete policies, it is all too easy for there to emerge a yearning for the past, and for force of habit to take effect. It oozes out." 12) "Old stereotypes become habit, and change does not come easily." "Due to force of habit, people's thinking does not easily change." 13) It is evident that reform and opening must seek and open up a new path, and break through the systems and concepts fettering the development of the productive forces, and the obstructive force that primarily comes from the "Left." The historical mission of the revolution is to once and for

achievements of the 15 years of reform and opening and socialist modernization prove that the party's basic line is a line that represents the basic interests of the masses, and is a line that has obtained the whole-hearted support of broad numbers of people. Hence, no one has grounds to change this line, and we must unshakably uphold the basic line of the party for one hundred years.

History reveals that the correct line is always formed and developed in the struggle between the mistaken deviations of the "Left" and Right, and is also implemented and realized in the process of eliminating interference from the "Left" and Right. The party's basic line during the early stage of socialism was of this type. For this reason, in the process of implementing the party's basic line, it also was a process of continuously eliminating the interference of the "Left" and Right.

In the new period of reform and opening and socialist modernization, paying attention to the two erroneous deviations of "Left" and Right has been a consistent thought of Comrade Deng Xiaoping. Not long after the Third Plenary Session of the 11th Central Committee, Deng Xiaoping in his speech on the subject: "Upholding the Four Cardinal Principles," stated that it is necessary to criticize mistaken thinking regarding the Four Cardinal Principles from the two aspects of "Left" and Right. In March of 1981, in a speech entitled: "On the Problem of Opposing Mistaken Thinking and Deviation" he stated: "in liberating thinking, one must oppose 'leftist' thinking, and rightist thinking. The Third Plenary Session advanced the concept of liberating thinking, which was directed against 'The Two Alls [Hua Guofeng and his acceptance of all of Mao's teachings, directions],' and the key is correcting "leftist" mistakes, and later a right deviation will emerge, and this of course must also be corrected." In his talks Deng endorses the idea that if "leftist" thinking exists, it must be opposed, and if rightist thinking exists, it also must be opposed. At the same time, he stresses: "the key is to correct mistakes that guide thinking towards a 'Left deviation'; in writing a historical resolution it is necessary to "properly summarize the lessons of the 'Left"'; some cadres "do not understand the policies of the Third Plenary Session, and some engage in capitalism. This is primarily a result of influence from the 'Left'." 15)

In 1983 at the Third Plenary Session of the 12th Central Committee, Comrade Deng Xiaoping, referring to the situation at that time clearly stated that "at present, the problem that the ideological front must first emphasize solving is to correct rightist thinking, and weaken and dilute the deviation," while at the same time emphasizing "the need to still pay attention to protecting against 'leftist' errors," and we cannot criticize the right from a leftist' position." "On the subject of theoretical thinking, we must continue to criticize and correct the 'leftist' mistaken viewpoint." 16) In August of 1985, Comrade Deng Xiaoping stated: "it is necessary to pay particular attention to our 'leftist'" errors. That 'leftist' errors involve losses is a conclusion that has already been historically drawn." 17) That same year in October at the Party

Congress Deng Xiaoping stated: "without a thoroughgoing correction of 'Left' errors, and a resolute shifting of the focal point of work, it will not be possible to have the good situation we enjoy today. In the same way, if we do not conscientiously uphold the Four Cardinal Principles, it will not be possible to maintain a stable and unified situation, and it will be impossible to change from correcting the 'Left' to 'correcting' socialism and Marxism, and it will also not be possible to have the good situation we enjoy today." 18) Early in 1987 Deng Xiaoping noted: "if we say that in the past we paid much attention to interference from the 'Left,'" and did not pay sufficient attention to interference from the Right, then these student disturbances remind us that it is necessary to pay increased attention to interference of the 'Right.' 19) That same year in April he again stressed: "we have both interference of the 'Left' and interference of the Right. But the greatest danger is still the 'Left'" 20) In July he reiterated: "when it comes to interference from the 'Left' and Right, the most important is interference of the 'Left.'" 21) Early in 1992, during his Southern Tour speeches, Deng Xiaoping further pointed out: "At present, things of the Right are effecting us, and things of the 'Left' are also influencing us, but the things of the 'Left' are deep-rooted." "Rightist thinking can ruin socialism, and 'leftist' thinking can also ruin socialism. China must be vigilant against the Right, but the most important thing is protecting against the 'Left.'"

To sum up, it is evident that starting from the Third Plenary Session of the 11th Central Committee up to the Southern Tour, for more than a decade, Comrade Deng Xiaoping has consistently upheld the "battle on two-fronts line." His basic standpoint is to both oppose right and oppose "Left," if there is rightist thinking oppose the Right, if there is "leftist" thinking oppose the "Left"; uphold dialectics, and do not engage in one-sided thinking; in accordance with the concrete circumstances of different time periods, sometimes lay special emphasis on opposing the Right, and sometimes lay special emphasis on opposing the "Left," but resolutely do not allow the use of "leftist" thinking to oppose the Right, or the use of rightist thinking to oppose the "Left"; when it comes to that creature of the Right, bourgeois liberalization, it is necessary to have a clear-cut stand in opposition; at the same time stress that in talking about bringing order out of chaos, and the entire historical process of reform and opening, the important thing is opposing and protecting against the "Left."

Theory and practice prove that the "Left" and the Right both deviate from the party's basic line, and both interfere with the party's basic line, hence both can ruin socialism. In addition, "Left" and Right are deviations that diverge from Marxism and the correct line, and from a formal point of view, are mutually opposing, mutually exclusive; looking at their essence, they are mutually conditional, and depend one each other for their very existence. The facts indicate that "leftism" run amok will create a situation where the Right can gain ground, and using "leftist" thinking to oppose the Right also inevitably assists the Right in running rampant; conversely, the Right gains

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ground if it is not held in check in a timely manner, and will inevitable assist a "leftist" resurgence. This is the objective law of "Left" and Right mutuality, and we should recognize it, grasp it, and conscientiously use it to guide in the struggle to oppose deviation.

In sum, in upholding and thoroughly implementing the party's basic line, we must uphold the "battle on two frontlines" concept, and if there is rightist thinking oppose the Right, if there is "leftist" thinking oppose the "Left." At the same time, we certainly must pay attention in opposing one deviation to attend to protecting against the other deviation. No matter whether we are opposing the "Left" or opposing the Right we must take the party's basic line as the yardstick, uphold the "three things to benefit [party, country, people?]" standard, and absolutely must not allow the use of "leftist" thinking to oppose the Right, or rightist thinking to oppose the "Left," while protecting against going from one mistaken deviation to the other deviation. We cannot allow change in the Party's basic line from a Right perspective and currently we must not allow

this from a "Left" perspective. In the struggle against deviation, we must certainly start from differences in thinking and errors in actual work, and the differences of Right and "Left" in political deviation in thinking and line, to protect against magnifying the opposition to the "Left" and Right.

**Notes:**

- (1)(3)(4)(5)(6)(9)(12)(13)(16)(17)(18)(19)(20)(21) *Selected Works of Deng Xiaoping*, Volume 3, pp 248-249, 207-208, 375, 253-254, 237, 228, 248, 229, 47, 131, 141, 199, 229, 249. (2) Mao Zedong: "Remarks at the Chinese Communist Party National Peoples' Congress" *Selected Works of Mao Zedong* Volume 5, p 152. (7)(8)(10)(15) *Selected Works of Deng Xiaoping (1975-1982)*, pp 140, 334, 228, 334-335. (10)*Selected Works of Mao Zedong* Volume 1, 2nd Printing, p 303 (11)see *The Book of History (Shiji) Lu Jia Chapter*, "In gaining political power on the battle field, will it be possible to rule by force of arms?"

## NATIONAL AFFAIRS, POLICY

### State Council Research Director Comments on Economy

94CE0594B Beijing ZHONGGUO NONGJIHUA BAO  
in Chinese 15 Jun 94 p 3

[Article by reporter Ji Ren (0679 0086): "State Council Development Research Center's Director Sun Shangqing Speaks on the Trend of China's Economic Development—Under Certain Conditions, China's Economy Can Sustain a High Rate of Growth For Some Time; Last Year's Regulation and Control Measures and 'Soft-Landing' Maneuvers Were Basically Successful; To Solve the Problems Caused By Accelerated Economic Growth, Macro Regulation and Control Measures Must Be Further Improved"]

[Text] This reporter has learned from the Chinese Market Society that State Council Development Research Center's Director Sun Shangqing had recently spoken on "the need to thoroughly study the future trend of China's economic development."

#### Under Certain Conditions, China's Economy Can Sustain a High Rate of Growth

In Sun Shangqing's opinion, as a large, developing, socialist nation, China's reforms and development in the last decade or so have created the conditions for accelerated development in the future. Under certain conditions, China can sustain a high rate of economic growth for a fairly long period of time.

So called certain conditions include, one, a peaceful international environment; two, stable domestic conditions, including no serious mistakes and setbacks in our economic undertakings; three, thorough restructuring of the economic system and the successful establishment of a socialist market economic system.

Factors lending support to China's sustained rapid growth for a fairly long period of time include, one, China has a huge domestic market of more than a billion people. In the wake of reform and development, China's urban and rural income will continue to increase; demand, which is backed by real ability to pay, will get more brisk every day.

Two, the Chinese people as a nation are industrious and thrifty and have a fine tradition of being diligent savers. The high rate of savings can sustain a high rate of investment of more than 30 percent.

Three, the optimization of the economic structure requires us to overcome the "bottleneck" constraints, and we must increase the long-term, sustained input in the infrastructure and basic industries. This creates a huge effective demand but also a large effective supply.

Four, In the wake of thorough reform, we must open up even more to the outside world, continue to improve the investment environment, and make use of foreign funds, resources, technologies, and management experiences, and therefore the possibilities and potential for promoting

development at home will necessarily increase. Currently, foreigners are generally optimistic about investing in China, and henceforth the scope of foreign capital utilization will expand. Utilizing foreign capital is an important factor in China's economic growth.

Five, China has a rich supply of talents and resources; our standards are by no means low. In the wake of economic, educational, scientific, and technological developments, the current brain-drain will stop.

Six, by establishing a modern enterprise system, enterprises will display new life and vitality. Foreign-funded enterprises, township enterprises, and private enterprises were born and developed during reform and opening up; they are naturally capable of adapting to the market. After reform, the large and medium-sized state-owned enterprises, to different extents, have acquired the ability to cope with the market and make independent management decisions. These lively enterprises under different ownership systems are the basic requirements for accelerated economic growth.

Seven, China's rural economy is still fragile, but there is tremendous potential for development. In the process of developing a socialist market economy, we must give agriculture top priority and strengthen its fundamental role. The restructuring of the rural economic system will become more thorough; agricultural input will increase; and high-yield, high-quality, and high-efficiency agriculture will continue to develop. We must vigorously engage in comprehensive agricultural development and increase comprehensive productive capacity, so as to promote overall economic stability and development.

The above are objective factors. The strategic thinking of seizing the opportunity, accelerating development, and striving to raise the national economy a few notches higher every few years has its objective basis. The conflicts and problems that have emerged during the growth process are inevitable. So long as we are sober-minded, deal with the problems in a timely fashion, take effective regulation and control measures, continuously review our experiences, and avoid serious mistakes, they will not affect the overall development trend.

#### Last Year's Regulation and Control Measures and "Soft-Landing" Maneuvers Were Basically Successful

Sun Shangqing pointed out that China's economic growth rate topped 13 percent in 1993. In the first 6 months of last year, some sectors showed signs of "overheating," and the real estate craze and development zone craze also created some kind of "bubble economy." In June, the government began to take decisive measures to strengthen and improve macro regulation and control, and the results have been positive. The above-described phenomena were soon put under control, and some of the serious contradictions and problems that had emerged were resolved; financial order and economic order improved. Facts proved that the macro regulation and control measures taken were necessary, and it was correct to emphasize economic and legal

the enterprise during its times of difficulties and defers enterprise bankruptcies. However, conversely, this kind of psychology is also an element of a frightening explosive character; once the reality has to be faced, the spiritual collapse that this will induce may have serious social consequences. Plant directors/managers too are considering the enterprise they manage as their rice cooker, but it has yet another meaning for them. In their case the salaries were not everything that they had gotten out of the "cooker," they also had good housing, a small car, a network of relations, the "no-matter-what-happens" banquets, and the acknowledgment by society of their particular status.

4. The central government. Viewed from the standpoint of the central government, the issue of bankruptcies of state-owned enterprises is purely a problem of readjusting the commercial order and enforcing a proper creditor-debtor relationship. It is not at all merely a question of strengthening the vitality of the state-owned enterprises by projecting them into the conditions of market economy. It is an issue that touches on many political and social problems, of which the most conspicuous is the so-called safeguard against unemployment and the related problem of "stability and unity." Even from a purely economic viewpoint, bankruptcy of state-owned enterprises is for the central government something half beneficial and half detrimental. On the one hand, a large-scale bankruptcy of enterprises will reduce the state's tax revenue. Under the Chinese system of predominantly indirect taxation, even an insolvent enterprise can still produce revenue for the state, as long as it is operating. On the other hand, under the present economic conditions, the operational conditions of an enterprise are not determined by whether the various sectors of the enterprise are overproducing or producing too little, also not by the technological equipment of the enterprise, but rather to a considerable extent by its system, i.e. determined by whether it is a government-run enterprise or an enterprise of a private nature. As things are in this way, if we were to allow enterprises to freely go into bankruptcy, the first to bear the brunt of it would certainly be the state-run sector and not the so-called overproducing sectors. Inaccurate market signals would have the effect that the process of enterprise bankruptcies would at the same time be a process of

## II. New Institutional and Economic Factors Induce More Enterprise Bankruptcies

Up to the end of 1993, the courts had handled 1,417 bankruptcy cases, in 1989 there had been 98 cases, in 1990 32 cases, in 1991 117 cases, in 1992 428 cases, and in 1993 710 cases, of which 273 were cases in the first semester and 437 cases in the second semester. Comparatively few cases of bankruptcy were handled in 1990 when the state, because of the "June 4" factor, strove above all for stability. Apart from that, there was a rapid increase from 1991 on, doubling of cases every year, and another doubling between the first and the second semester of 1993. That indicates that enterprise bankruptcies are rapidly increasing, and that the "Bankruptcy Law" is gradually becoming more effective in China's economic life.

The Third Plenary Session of the 14th CPC Central Committee last year set up a new target model for China's economic reform. This will result in important changes in China's institutional and economic conditions. Many new economic factors will emerge in the economic life, and these new economic factors are bound to have a novel impact on the direction of the issue of bankruptcies among China's state-owned enterprises.

1. The latest reform of the tax system will possibly raise pressure on insolvent enterprises to declare bankruptcy.

Viewed with special consideration of the reform of the turnover tax system, we see that although the state emphasizes implementation of the "no change in the tax burden" principle, this principle is merely an all-encompassing concept. Structurally seen, the new turnover tax system will certainly cause happiness in some, as well as unhappiness in other lines of trade and so also in different sectors. When the tax rates are changed in 12 tax brackets of products from the former 3 to 60 percent rates to the present two brackets of 13 and 17 percent added-value tax rates, the result is definitely that tax burdens for certain lines of trade are reduced, while tax burdens for some other lines of trade are increased. Considering the two brackets of the added-value tax rate, the low tax rate of 13 percent will apply to only some few products, so that actually the rate of the new turnover tax will essentially be 17 percent. According to estimates, this 17 percent added-value tax rate amounts to a 14.5 percent products tax. That means that trades with a 3 to 14 percent products tax under the former system will have their tax burden increased. On the other hand, if

tax burden will in actual fact have its tax burden increased after the "production factor is changed to added-value factor." For instance, the former products tax rate for medicines was 8 percent, its present added-value tax rate is 17 percent, and since medicines are products with a high degree of added value, also with only small amounts in the earlier production links to be used to offset, its turnover tax burden will almost double. We can therefore say that the present reform of the turnover tax system will raise the overall tax burden of the enterprises, and the insolvent enterprises will be hardest hit by the heightened tax burden because, unlike the profit-making enterprises, they will not be able to compensate the losses from the increased turnover tax burden with a reduction in their enterprise income tax (reduced from 55 to 33 percent). In this "rob the poor to benefit the rich" reform of the tax system, it will be like adding one calamity on top of another for the insolvent enterprises, and some will thereby quite possibly be driven into bankruptcy.

## 2. The imminent reform toward separate tax systems for

going bankrupt will to some extent be withdrawn and cancelled, according to the new taxation system.

### 3. Reform of the banking system will have many unprofitable enterprises lose their credit support.

The imminent reform of the banking system might well prove fatal for unprofitable and debt-ridden state-owned enterprises. In recent years, the task of supporting unprofitable state-owned enterprises had mainly devolved on the banks. Actually, not only deficit enterprises, even profitable enterprises had more and more relied on bank support for their business operations. In the 1983 reform of "changing from fund allocations to the granting of commercial loans," it was stipulated that increases in working capital will no more be allocated by public finance, but provided in the form of bank loans. At the same time, however, it was stipulated that enterprises are to use 15 to 30 percent of post-tax profits to supplement their working capital. The actual result, nevertheless, was that for 10 years state-owned enterprises not only failed to supplement their working cap-

their deficits and not go bankrupt. Of course, the banks will suffer losses when their debtors go bankrupt, and many people fear that enterprise bankruptcies will also drag banks into bankruptcy. After all, if banks would be truly commercialized, banks should be in a position to properly work out their accounts.

4. The rampant calamity of the "triangular indebtedness" will induce some enterprises to adopt bankruptcy as the way to rid themselves of their debt burdens.

Apart from indebtedness on bank credits, commercial credit indebtedness between enterprises has developed to a frightening extent. The huge amounts of triangular indebtedness can be of double consequence: On the one hand, it may cause the central government to lose confidence and adopt the attitude of "let's smash the pot to pieces because it is cracked already." On the other hand, it may cause the enterprises to accept as a "rational expectation" in the prevailing commercial order that "whomsoever I owe is in bad luck," and have them employ this as normal strategy in business operations, which will finally get to a stage of abuse where things cannot be put right again. The increase of bad claims in the overall commercial credit situation will subject enterprises to bankruptcy pressure from two sides. On the one side, it is possible that the future creditor in the field of commercial credits, in order to realize his claim, will petition for bankruptcy procedures against the debtor enterprise. On the other side, the debtor enterprise, eager to rid himself of his debt burden, especially indebtedness to someone in another place, will itself file for bankruptcy. It is already evident from several recent bankruptcy cases that symptoms appear of a trend to "declare bankruptcy to get rid of one's debts."

5. The reform of the company registration system, which is now being discussed, will create favorable conditions for the "bankruptcy strategy" of local governments.

Up to the present, most bankruptcy cases have been heard by the courts on the petition of the debtor, while the actual decision to file for bankruptcy was generally made by the local government or administrative agency in charge of the enterprise concerned. A local government's field of vision and room for maneuvering in bankruptcy problems will be much wider than those of an enterprise. For instance, to protect the interests of an enterprise in its own district, a local government may employ the trick of letting the old

6. The new target model in the reform of the enterprise system will possibly lead to a further sharpening of the contradictions encountered by the enterprises with regard to the desirable "self-sustained independence" and "self-regulation." It will have them sink deeper into debt and will lead to more widespread bankruptcies.

Self-sustained independence and self-regulation are things that relate to two contradictions which have come into being together, and neither should be overemphasized at the expense of the other. The major reason why state-owned enterprises cannot attain self-sustained independence is that they cannot attain self-regulation. Enterprises that cannot attain self-regulation must, of necessity, rely on "outside regulation," as the enterprises may otherwise turn from production organizations into mere consumption organizations. The lack of vitality in state-owned enterprises is directly related to their inability to gain self-sustained independence, but if self-sustained independence is to be gained, the question of self-regulation must be resolved at the same time. However, all economic theories that have so far come to attention have not clarified the relationship between self-sustained independence and self-regulation. The reform that delegates authority and yields profits is a process of freeing the enterprises from outside regulation, but practice has proven that lessening outer regulation of state-owned enterprises will not only not move them step by step toward self-sustained independence, but will, on the contrary, have them, like a child that has all restraints lifted, go down the road of "production fund consumerism." The present situation of a "three-three system" [san-san zhi] of deficits of the state-owned enterprises has to a large part come about by their being "eaten up" for many years, because they had been mere consumption units. This point is demonstrated particularly clearly by the local state-owned enterprises.

After all the reform experiments—profit retention, fixed profit quotas, taxation instead of allocation of a share of the profits, contracted taxes and profits, separation of taxes and profits—the present structural reform of the Chinese enterprises has decided on a new target model, the shareholding system. Whether the shareholding system as an organizational form for enterprises can resolve the problem of enterprise self-regulation is very doubtful, because the self-regulation problem is essentially not a problem that can be solved on the level of

progress. They onesidedly, or even self-seekingly deal with the Party's basic line, and its plans and policies. Why? This requires a review of Comrade Mao Zedong's "On Correct

stage "one center, two fundamental propositions" line, guarding against and opposing "leftist" and rightist interference was a major issue consistently given attention by

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JPRS-CAR-94-045  
19 August 1994

## ECONOMIC

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between liberation from outside regulation and establishment of self-regulation that is becoming the hotbed for raising bankrupt enterprises.

7. Faced with increasing inflationary pressures, the government is forced to adopt a policy of retrenchments; this will widen the scope of actual deficits in enterprises and will intensify bankruptcy pressures.

Regardless of how complex the reasons are for China's inflation, there is only one method for the government to curb inflation, namely to control total demand. According to normal logic, it has therefore been necessary for the government this year to adopt restrictive measures to control investments and credits. In this kind of a macro-economic environment, in which a new system of public finance and a new banking system is being developed, unprofitable enterprises have lost their subsidies from public finance and also their bank credits, so that many of them will be forced into bankruptcy. Besides, during the heightened real estate trading activities of the last two years, much capital from inland China had rushed into the coastal areas, and is being tied up there, for real estate projects, but with the continued retrenchment policy, might also get wiped out there. This circumstance too may increase the number of enterprise bankruptcies.

8. Efforts of the government to establish a system of social security and a labor market may help mitigate the "obstacle of the personnel problem" in this issue of enterprise bankruptcies.

In China, the largest obstacle to enterprise bankruptcies is the "human" problem. In all the bankruptcy cases handled by the courts during the last few years, the most difficult problem is the problem of relocating staff and workers. In some cases, the local governments asked that units that buy bankrupt enterprises take over most of the staff and workers of the bankrupt enterprise; in some cases the government agency in charge of the enterprise and the department in charge of labor affairs each take responsibility for one half of them. For fear that economic problems will turn into political problems, government officials often proceed extremely cautiously in matters of enterprise bankruptcy.

We have to admit that China's efforts in recent years to create other software conditions for the establishment of an unemployment insurance system and for the establishment of labor markets have been successful. One manifestation of remarkable success is the initial shift in the minds of the workers toward a market-oriented labor concept. There is more and more self-initiated seeking of employment and more and more self-initiated hiring of personnel. Workers do not regard unemployment as a shameful thing, although it is still regretful. Prior to the establishment of a social security system by the government, practice has started to seek substitute methods. In most recent bankruptcy cases, some enterprises have allocated a portion of the bankruptcy estate to pay for the costs of relocating staff and workers. On receiving 10,000 to 20,000 yuan, the workers will leave to seek employment themselves. Ninety

percent of the workers find this arrangement acceptable. This will explain two questions: First, there is less and less concern among workers about losing their rice bowl, and second, there is great confidence among workers of themselves finding employment in view of the expanding investment potential in China's tertiary industries.

9. Establishment of a property rights trading market will provide effective market facilities for enterprise bankruptcies, settlement of estates, assessment of assets, and auctioning off of residual assets.

Without a property rights trading market, all arrangements necessary on the bankruptcy of an enterprise would pose great difficulties for local governments. Before an enterprise will actually declare bankruptcy, it will often happen that the local government will assign an entity to merge with or to buy over the insolvent enterprise, and the law courts at all levels will also make this a precondition for taking on such cases. As it has evolved in bankruptcy practice, local governments have found this method absolutely necessary to adopt. For instance, when the chemical plant in Shashi, Hubei Province, was "broke and split off [fen li]," it was unable to find any other unit to merge with after half a year of bankruptcy. In that case, staff and workers could not be relocated, nobody took care of the equipment, and losses of the enterprise became disastrous. Plant maintenance alone cost over 100,000 yuan. Without a property rights trading market, the reinvigoration or conversion to cash of bankruptcy estates is extremely difficult. It is difficult to find a buyer for special purpose equipment, and as to general purpose complete plants with equipment, large buyers will not want it, small buyers will be unable to buy it, and if disassembled it will only become scrap metal. Given in lieu of payment to the creditor (generally a bank), the creditor will not know what to do with it. To have banks directly manage factories is contrary to general policy, and banks are also not equipped to do that. To entrust operations to someone else, there is no intermediary to arrange such, and to auction off and convert to cash, there is no trading organization to do that either. Finally, it will be the government that will buy back the factory. A situation like this where "enterprise goes broke, government gets the carcass" is really a satirical inconsistency. As far as law and reason is concerned, what goes "broke" is the owner in question, i.e. the property of the state, and the residual estate after bankruptcy has then to be "bought" back again by its owner. These contradictions will in future, with the development of property rights markets, be gradually eliminated. The advantage of property rights markets are, on the one hand, that they will provide a rational market organization for auctioning off residual estates, and, on the other hand, that it will build a bridge on a worldwide basis for direct contact between the seller and the buyer of the insolvent enterprise. That will eliminate some obstacles to the disposal of bankrupt enterprises, and be an incentive for insolvent enterprises to approach the bankruptcy courts.

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down to mere empty shells and as a consequence have become ripe for bankruptcy. Whether to continue by various means to keep these enterprises alive, or whether to send them to the bankruptcy courts, depends mainly on the decision of the local officials. Judging by recent bankruptcy cases, before the settlement of creditors' accounts, payments have to be made of charges for liquidation of the estate, taxes in arrears, court charges, assets assessment fees, staff and workers' relocation expenses, overall insurance, and personnel retirement pay and their health care expenses, while much discretionary freedom is allowed in the determination of charges for liquidation of the estate, court charges, and assets assessment fees. For instance, in the bankruptcy of a foodstuffs canning plant in the south with over 2 million yuan of assets, the bankruptcy court's charge was almost 100,000 yuan, and liquidation charges over 400,000 yuan. We must not arbitrarily assume that fraudulent practices of local officials had been involved in this particular case, but we can assert that there is here the possibility of profiteering when local officials are left to manipulate enterprise bankruptcies in this way, namely that persons on whose wilfulness the amounts of these charges depend will take a cut or a kickback. The system of separate taxation for local governments and for the central government will reduce

### Short Conclusion

1. It is impossible to use imported economic theories to interpret the law that governs the question of bankruptcies in Chinese enterprises, or to determine the developmental trend of bankruptcies in Chinese enterprises. For instance, generally speaking, the frequency of enterprise bankruptcies in a society is closely related to the prosperity of its commercial cycle, and economic growth should change in an inverse relation to the scale of enterprise bankruptcies. However, judging by the number of bankruptcy cases that have come to the law courts in recent years, these relationships do not exist in China. If one were to insist on using a short-term economic analysis to explain the law governing bankruptcies in state-owned enterprises, one would get a result that is contrary to normal logic. For instance, adding all bankruptcy cases filed with the courts during the two years of 1989 and 1990, when there was economic stagnation and a sluggish market, there had been only 130 cases, but there were 710 cases, i.e. four, five times more, in the one year of 1993, when there was an economic boom. China's economy is now in a transitional phase, and "transitional phenomena" are extremely complex, so that the simple application of

Obviously, this kind of a bankruptcy is not a matter on different levels of ownership. Luckily, we have in our hands a readymade theoretical tool for this situation: the ownership right. This, it seems, will help us get around the theoretical difficulty. We may now say that when a state-owned enterprise goes bankrupt, what goes "broke" is the ownership right and not the ownership. However, is that still the inherent meaning, legally and rationally, of the term "bankruptcy"? In order not to digress into the field of jurisprudence, we might as well look at the concept of "state-owned enterprise bankruptcy" and the contradiction it entails in actual economic activities. Supposing a state-owned factory owes an amount of money to the bank, and the enterprise, regardless of its solvency, wants to repudiate its debt, it can use the bankruptcy strategy. With the help of the relevant government agency in charge, it may register a new enterprise of the same nature of business and through fake business operations gradually transfer its assets to the new enterprise, and, after having done so, declare bankruptcy, leaving a heap of dry bones for the creditor to chew on. In the Western countries, on the other hand, if an industrial or commercial enterprise

comparison with similar problems in Western countries, so as to enable us, as a consequence, to formulate, beyond the "Bankruptcy Law," supplementary legal provisions and policies to continuously improve China's system of enterprise bankruptcies.

## Statistics Researcher Analyzing Market Behavior 94CE0535A Beijing GUANLI SHIJIE /MANAGEMENT WORLD/ in Chinese No 3, 24 May 94 pp 24-31

[Article by Liu Qiusheng (0491 4428 3932) of the Aggregate Economic Analysis of the State Statistics Bureau: "Analyze China's Consumer Market Behavior"—First paragraph is GUANLI SHIJIE introduction]

[Text] The high-speed economic growth in 1993 brought about market prosperity. However, residents' scale of actual consumption is out of proportion with their actual income in despite of the strengthening of the macroeconomic policy on savings and the proper guidance on financial activities. Most notable is the fact that the residents' average propensity to consume had dropped continuously for five years, while their propensity to save and the amount of cash on hand are on the rise. This

1992. The actual growth was 9.4 percent if the factor of inflation was taken into consideration. The residents' actual incomes and the annual rate of growth in 1993 were approximately 3 percent lower than these in 1992. Our preliminary estimate shows that the sales on the consumer market in 1994 will continue to grow moderately. The consumer market is expected to grow by about 20 percent for the whole year, and this figure will be slightly lower than the growth rate of the residents' income.

The main characteristics of the 1993 consumer market were as follows:

1. The consumer market maintained a fairly high rate of growth, and the grades of the consumer goods were notably higher in quality. Some reputable high-quality well-known new products were always in great demand. All types of brand name wine, cigarettes and high and medium grade foodstuff, dry and fresh fruits and aquatic products were also readily marketable. Clothes also sold well. The annual growth rate of garments was 16.1 percent. The clothing market was full of high and medium-quality ready-made, fashionable clothes. Residents also rushed to buy appliances due to changes in foreign exchange rate and the delay in China's return to GATT. The supply of some imported appliances failed to meet demands and the prices of such appliances rose during the first half of 1993. Some of the appliances were completely sold out. After measures for macroeconomic control were introduced during the second half of 1993, the sales of imported home appliances and jewelry leveled off. Prices of some of the appliances and jewelry even dropped, while those of others were stabilized.
2. The consumer market in urban areas remained lively, and the quality of consumer goods was somewhat improved. Consumers began to pay attention to quality rather than quantity. They preferred to eat nutritious food, wear comfortable clothes and use high-quality appliances. Right now, buying houses and installing telephones and air conditioners had become general topics in spending. A survey showed that as compared with the first half of 1992, urban residents spent 33.3 percent more money in buying household appliances and 97.5 percent more money in transportation and telecommunications, of which the growth rate of telephone installations rose by 1.9 times and that of beepers by 7.8 times during the same period in 1993. The sales of consumer goods in rural areas bounced back, but the
- The pressure on the consumer market is mainly from the following sources:
  1. The gap between different areas and between town and country is widening. The sales of consumer goods along the coast in southeast China and the developed areas continue to grow since 1993, while that in China's hinterland is relatively slow.
  2. The difference between different types of businesses remains large. The annual growth rate of nonpublic sector rose 36.5 percent with its ratio raised by 3.2 percent over that in the same period in 1992. The public-owned commercial enterprises only rose by 16.4 percent with its ratio declining.
  3. The difference between the urban and rural markets remains sharp. The annual growth rate of the urban consumer market was 31.2 percent, while that of the markets at and below the county level was only 19.5 percent. On a monthly basis, the growth rate of the rural consumer market was more than 10 percent lower than that of the urban consumer market for eight months running.
  4. The consumer mentality of the residents is strained. Due to the fact that the inflation rate in 1993 reached 13 percent in 1993 and that the consumer price index in 35 large and medium-sized cities rose 19.6 percent, residents were scared of price hikes. The waves of panic buying spread from the cities to the counties and the countryside. Residents rushed to buy gold, jewelry, imported home appliances, brand name commodities made in China, woolen yarn, woolen blankets and other inflation-proof durable goods. Especially the sale of gold doubled.
  5. The sale of consumer goods contrasted sharply with that of producer goods for farming.
  6. It was a common practice to use public funds to buy shopping coupons and gift certificates, and give them to workers. The amount of shopping coupons sold by some of the stores accounted for 30 percent of their total amount of sales during the same period. In recent days, the growth rate of consumption by social groups exceeded 20 percent for 15 months running. Prior to August 1993, such growth rate was higher than that of ordinary people for 30 months running.
  7. The growth rate of commodities purchased and mer-

incomes, urban and rural residents are also people who demand and consume essential factors of production. Market is precisely the medium that links and exchanges the essential factors of production with the essential factors of production.

If we use resident income as the starting point in carefully examining the market, people would be surprised to discover that resident income had been greatly increased since 1978 (in order to calculate more accurately the actual incomes of urban and rural residents, this article uses the expenditure method to calculate their actual incomes.) In

1952, the amount of urban and rural residents' discretionary income which could be used for buying daily necessities and financial assets was only 42.35 billion yuan. This figure rose to 176.19 billion yuan in 1978 with an average annual growth rate of 5.6 percent. After the introduction of reform and opening up, the discretionary income of residents have greatly increased. Between 1979 and 1984, resident income grew 14.9 percent in average. It grew 20.8 percent between 1985 and 1988; 13.4 percent between 1989 and 1992; and approximately 26 percent in 1993. It is predicted that it would grow about 20 percent in 1994. (See details in Table I)

Table I. Discretionary Resident Income (Unit: 100 million yuan)

Year	Net Discretionary Resident Income	Net Resident Monetary Income	1. Purchasing Power for Consumer Goods	2. Residents' Cultural Services	3. Surplus Purchasing Power in That Year	(1) Increment in Saving Deposit	(2) Increment in Cash on Hand	Peasants' Own Consumption
1952	423.5	264.9	237.9	15.8	11.2	3.1	8.1	158.6
1978	1,761.9	1,245.8	1,121.1	83.5	42.3	29.0	13.3	516.1
1979	2,076.6	1,509.1	1,307.8	90.2	114.8	70.4	44.4	567.5
1980	2,450.3	18,884.7	1,602.6	104.2	183.9	118.5	65.4	565.6
1981	2,722.6	2,083.9	1,791.1	114.6	175.9	124.2	51.7	638.7
1982	2,963.9	2,272.9	1,948.1	126.1	198.7	151.7	47.0	691.0
1983	3,357.4	2,603.1	2,160.3	139.1	302.0	217.1	84.9	754.3
1984	4,062.8	3,260.8	2,561.5	177.1	523.3	322.2	201.1	802.0
1985	5,018.9	4,160.9	3,375.8	218.4	568.6	407.9	160.7	858.0
1986	5,835.0	4,924.0	3,889.0	250.0	785.0	614.9	170.1	911.0
1987	6,865.7	5,874.7	4,533.7	316.0	1,025.0	835.8	189.2	991.0
1988	8,637.3	7,512.3	5,836.3	416.0	1,260.0	728.2	531.8	1,125.0
1989	9,529.1	8,369.1	6,358.8	519.7	1,490.6	1,333.5	157.1	1,160.0
1990	10,439.7	9,239.7	6,472.0	620.7	2,138.0	1,899.0	239.0	1,200.0
1991	11,849.8	10,549.8	7,505.4	746.7	2,497.7	2,076.3	421.4	1,300.0
1992	14,292.6	12,912.6	8,350.2	1,030.7	3,331.7	2,434.3	897.3	1,380.0
1993	18,002.3	16,512.3	10,570.0	1,306.8	4,435.3	3,218.5	1,217.0	1,490.0
(forecasted)	21,900.0	20,300.0	13,000.0	1,800.0	5,700.0	4,300.0	1,400.0	1,600.0

However, this kind of growth pattern of discretionary resident income runs counter to the overall development of the national economy. Right after the founding of New China, it was necessary to adequately distribute the

1978. After 1978, the state adopted various policies and measures to increase resident income in an effort to pay back old debts in the past. Between 1979 and 1984, the proportion of resident income in the gross national product was 30.1% in 1979, 32.1% in 1980, 33.1% in 1981, 34.1% in 1982, 35.1% in 1983, 36.1% in 1984, and 37.1% in 1985.

Year	Percentage of Resident Income in GNP	Percentage of Resident Expenditure in Income	Percentage of Consumption In Kind in Income	Percentage of Consumption Services in Income
1978	49.1	97.4	93.6	3.7
1979	52.0	97.6	92.9	4.7
1980	54.8	94.5	90.2	4.3
1981	57.0	92.5	88.3	4.2
1982	57.1	93.5	89.3	4.2
1983	57.8	93.3	89.0	4.3
1984	58.4	91.0	86.9	4.1
1985	58.6	87.2	82.8	4.4
1986	60.2	88.7	84.3	4.4
1987	60.8	86.5	82.2	4.3
1988	61.4	85.1	80.5	4.6
1989	59.6	85.4	80.6	4.8
1990	59.0	84.4	78.9	5.5
1991	58.6	79.4	73.5	5.9
1992	59.5	78.9	72.6	6.3
1993	59.6	76.7	69.5	7.2
1994 (forecasted)	59.9	73.8	66.5	7.2

The rapid growth of resident income has forced the commodity market to duly adjust its purchases and sales activities. First of all, we may observe the increases and decreases in the amount of commodity consumption from the changes in the ratio of commodities consumed. In 1952, the retail sales for each yuan of resident income was 0.7 yuan, and rose to 0.77 yuan in 1978, to 0.84 yuan in 1984 and to 0.86 yuan in 1988. It sharply declined to 0.77 yuan in 1992, of which the proportion of peasants' spending in consumer goods rose from 50.4 percent in 1980 to 67.6 percent in 1988. This figure also reached 62.2 percent in 1992. If we examine the overall economic operation, the proportion of resident income spent in

of the inventory of retail shops. This was basically adequate under the semi-subsistence economy in the early days of New China. In 1978, this ratio dropped to 1.76. It bounced back afterwards. It reached 2.27 in 1984 and 2.71 in 1988. It rose to 3.4 in 1992. There was hardly enough inventory. It is forecasted that this figure will hover around 3. However, due to the weak market economy and the lack of fluidity of residents' monetary income, the pressure to overload the market will be limited.

### III. Consumer Behavior: Its Effect on Propensity for Consumption and Saving

Thus, the average propensity to consume rose to 0.9768 in 1992 and 0.6278 in 1993. The residents' average propensity to consume is expected to reach 0.7397 and their average propensity to save about 0.2055 in 1994. (See details in Table III)

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He holds that our current macroeconomic regulation and control needs to shift from an excessive use of monetary policy to an equal emphasis on both monetary and fiscal policies, with a much sharper emphasis on the role of fiscal policy, which has a much greater impact on macroeconomic regulation and control.

Meanwhile, he notes that we need to pay attention to shifting from mostly overall regulation and control to mainly overall structural adjustment, which will make our macroeconomic regulation and control more effective.

He also emphasizes that we ought to shift from an overemphasis on short-term goals to a combination of short- and long-range objectives; we need to genuinely make macroeconomics dominant with microeconomics keeping pace, which will contribute to long-term economic stability, with government and enterprise reforms coordinated, instead of each going its own way.

#### **Greater Control Over Investment in Fixed Assets Urged**

*94CE0621A Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 6, 5 Jun 94 pp 8-12*

[Article by Liu Rixin (0491 2480 2450): "Current Fixed Assets"]

[Text] Theoreticians and those in charge of managing the economy hold different views about the amount of investment in fixed assets today. The disagreement centers on three questions: First, is the amount of investment in fixed assets today too large or not large enough? Second, should the government exercise macroeconomic control over the amount of investment? Third, how can the government control the amount of investment under today's circumstances? This issue involves an estimate of about the state of the entire economy and macroeconomic decisions. It is a large issue bearing on the entire national economy that merits diligent discussion and clarification. Let us discuss some views on these three questions.

production, have created severe product overstocking and glaring arrears, leaving the efficiency that ought to be brought into play through fund circulation unable to do so effectively.

2. Some enterprises are sustaining severe losses. As many enterprises are taking out considerable funds to make up losses, fund accumulation and appreciation are unable to play their roles.
3. The irrational disposition of resources has not improved. Previous sharp rises in the prices of capital and consumer goods have lowered cash payment capability, sharpening the conflict between fund supply and demand.
4. Money markets have not yet fully evolved. As the situation of fund supply being dependent mainly on state banks and credit-scope adjustments remains essentially unchanged, private and market financial institutions have not yet been very effectively established. This is another key cause of the tense conflict between fund supply and demand.

#### **Solutions to Deeper Problems Need To Proceed in an Orderly and Step-by-Step Way**

A much-debated current issue in theoretical circles is: Should the government control inflation strictly or reduce the unemployment rate? Qiu Xiaohua holds that: These two matters certainly do not conflict as far as the government macroeconomic regulation and control sector is concerned, both being very crucial, with the only difference being one of order of attention at various times. At the beginning of 1994, controlling inflation was the only way to ensure macroeconomic stability, to guarantee the smooth institution and implementation of all reforms; but from a long-range perspective, the matter most in need of resolution is the employment problem. As it is only economic growth that can add more job opportunities, growth ought to be China's most crucial issue.

Since fixed capital formation accounts for an overwhelming percentage of gross capital formation (usually 98 to 99 percent), it is not difficult to determine the fixed capital investment rate of these western nations in order to make a comparison with China.

The first method is used below to analyze the size of investment in China in 1993. For comparison purposes, the figures for 1991 and 1992 are also given.

	1991	1992	1993
Society-wide investment in Fixed Assets (100 million yuan)	5509	7855	11,829 (11500)
Percent increase over previous year	23.8	42.6	50.6 (47.0)
Percent increase over previous year in fixed assets investment price index	9.5	15.3	23.4 (20.5)
Actual percent increase over previous year (Society-wide investment in fixed assets minus price increase)	13.0	23.7	22.0 (22.0)

Source of data: Figures for 1991 and 1992 abstracted from State Sta-

lies in whether the fixed assets investment price index is correct. The 1993 statistical communique reported a 50.6 percent increase over the previous year in society-wide investment in fixed assets. After deducting for price increases, the actual amount of work increased only 22 percent over the previous year. Thus, a 23.4 percent rise over the previous year in the fixed assets price index may be imputed. However, XINXI ZHOUBAO earlier forecast only a 20.5 percent increase over the previous year in the fixed assets price index, but within slightly more than one month, the difference between the forecast and the imputed fixed assets price index was 3 percentage points. This matter merits attention. During the past several years, the fixed assets investment price index has been generally higher than the means of production price index. In 1993, the means of production price index was 38 percent, but the fixed assets investment price index that the statistical communique reported was only 23.4 percent. Clearly, this is inconsistent. This 40 percent underestimation of the fixed assets investment price index means that actual investment for the year increased only 7.6 percent over the previous year, an amount far lower than the 13.4 percent increase in GDP. This supports a conclusion of too small a scale of invest-

This table shows that, except for Japan, the current fixed capital investment rate of developed countries is generally not high. It should be noted that a country's fixed capital investment rate tends to rise. As the economy becomes more developed, investment growth may be generally as great as

or slower than economic growth. The fixed capital investment rate shows a trend toward stabilization or decline. China's fixed assets investment rate for the past three years is analyzed in the table below using this method of western market economy countries (or territories):

	Units	1991	1992	1993
GDP	100 million yuan at current prices	20188	24020	31380
Society-wide investment in fixed assets	100 million yuan at current prices	5509	7855	11829
Percentage of GDP	Percent	27.3	32.7	37.7
Includes: State-owned unit fixed assets investment	100 million yuan at current prices	3628	5274	8321
Percentage of GDP	Percent	18.0	22.0	26.5

Source of Data: 1993 Statistical Yearbook"; and 1993 statistical communique

The above table shows a 37.7 percent ratio of society-wide fixed assets investment to GDP, and a 26.5 percent ratio of state-owned unit fixed assets investment to GDP. I believe this shows too large a scale of investment for the following reasons:

First, in terms of historical experience, the fixed assets investment rate has gone beyond reasonable limits. Practice during the past 15 years of reform and opening to the outside world shows that once society-wide investment in fixed assets as a percentage of GDP passes 30 percent, and state-owned units' fixed assets investment as a percentage of GDP passes 20 percent, economic relationships throughout the national economy feel strained or proportionally imbalanced. Right now, all economic relationships are stretched very tightly for this very reason. One example is financial resources. In 1993, the real fiscal deficit was close to 90 billion yuan, having broken the all-time high for two years in a row. Another example is materials resources. In 1993, finished steel output reached more than 76 million tons, but that was still insufficient to meet production and construction demand. Thirty million tons of finished steel was imported from abroad, and that was an all-time record too.

Some people say that much foreign capital was used in 1993. Once this factor is eliminated, fixed assets investment as a percentage of GDP will decline; thus, the scale of investment is not great. It is indeed true that \$36.77 billion in foreign capital was used in 1993, the largest amount during the past more than a decade. But it must also be realized that not all of the foreign capital was invested in fixed assets. Calculations based on applicable statistical data show that only 43 percent of the total amount of foreign capital was used for fixed assets in 1992. If 60 percent of the foreign capital used in 1993 was for investment, the domestic capital portion of fixed assets investment comes to about 34 percent of GDP. This still goes beyond a reasonable limit. Therefore, unquestionably the

first meeting of the Eighth NPC passed called for a society-wide total investment in fixed assets of 800 billion yuan, the investment rate being held within 30 percent. Of this total, 565 billion yuan was for investment in state-owned units, and 235 billion yuan went for collectively owned units and individual investment. Furthermore, the actual way the money was spent was as follows: the investment in fixed assets throughout society was 1.1829 trillion yuan, exceeding plan by 382.9 billion or 47.9 percent. This included a state-owned unit investment of 832.1 billion, which was 267.1 billion or 47.3 percent more than plan; and a collectively owned or individually owned investment of 350.8 billion yuan, which was 115.8 billion or 49.3 percent more than plan. Of course, this includes price increases. However, inasmuch as the nominator and the denominator in the investment rate were figured at current prices, this offsets the price rise factor. The investment rate that the 1993 plan called for applied to society-wide investment in fixed assets as a percentage of national income. Calculated on the basis of statistical data, society-wide fixed assets investment in 1992 was 39.5 percent of national income. The percentage is expected to rise to around 42 percent for 1993. (This is a low estimate. Reportedly, the State Statistical Bureau will no longer figure the former MPS national income.) State-owned unit investment as a percentage of national income increased from 26.5 percent in 1992 to 33 percent or more in 1993. This actually completed investment rate was not only vastly more than plan, but a rarity since founding of the people's republic as well.

Third, the record breaking amount of money put into circulation in 1993 also expressed in money terms the overly large scale of investment. In 1993, GDP figured at current prices increased 30.6 percent, but investment in society-wide fixed assets increased 50.6 percent. This investment was an important reason for the upward pull of currency demand. The abrupt increase in the amount of money put into circulation resulting from enormous invest-

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JPRS-CAR-94-045  
19 August 1994

## ECONOMIC

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circulation over a five-year period during the late 1980s. (Between 1985 and 1989, 155.2 billion yuan was put into circulation.) As of the end of 1993, the amount of money in market circulation was 586.5 billion yuan. The 1993 35.3 percent increase on top of a 36.5 percent increase in the previous year made this a second peak during the past more than a decade that ranked second only to 1988 (a 46.7 percent increase). The excessive amount of money in circulation was detrimental to healthy development of the national economy.

Fourth, the currency inflation situation also reflected the too large scale of investment. Investment inflation was the cause of currency inflation, and price increases was the effect. Across-the-board, sustained price increases is inflation. The inflation situation today is as follows: In 1993, the cost of living price index (including the price of goods and services, which is termed the consumer price index in western countries) rose 14.7 percent on top of a 6.4 percent rise in 1992. In 1993, the retail price index rose 13 percent on top of a 5.4 percent rise in 1992. The 1993 inflation rate's breaking of the double digit mark for the fourth time in the more than four decades since founding of the people's republic should be cause for serious concern. Since the effect of money supply on prices lags, the large increase in the money supply during 1993 will play a role in driving up prices during 1994. During 1994, we will continue to face a grim inflationary situation.

### 2. Should the Government Institute Macroeconomic Control Over the Amount of Investment in Fixed Assets?

People hold different views on this question today. Some comrades feel that since China has a market economy, the market mechanism should play a basic role in the allocation of resources, and investment is an important way of allocating resources. Thus, the government should not intervene. If the government controls the amount of investment, that will be a return to the old planned economy road.

I feel that this depends on one's interpretation of China's market economy. We do not have a laissez-faire market economy but a socialist market economy. The market plays a basic role in the allocation of resources under state macro-economic regulation and control. The market responds quite sensitively to all kinds of economic information; thus, it can play a positive role in coordinating supply and demand. At the same time however, it contains some negative aspects, such as responding after the fact and in a hit-or-miss way, that require greater government macroeconomic regulation and control. Macroeconomic regulation and control include regulation and control of both total demand and total supply, as well as specific regulation and control of production and construction. Nowadays, many places build helter-skelter, and duplicate construction. This produces a redundant industrial structure in which the capacity to produce many goods exceeds market demand. For the country as a whole, not enough is invested in infrastructure and basic industries while at the

same time there is too much investment in some high consumption, non-productive kinds of construction. This results from poor macroeconomic regulation and control. Therefore, state regulation and control of the scale of investment in fixed assets, the investment structure, and the regional pattern of distribution is a natural ingredient of macroeconomic regulation and control. "State plan is an important means of macroeconomic regulation and control." When the state regulates and controls investment through plan, this is not a return to the old planned economy road but combining plan and the market, both the "visible hand" of government informed decision making and the "invisible hand" of the market mechanism playing a role. It is a feature and a virtue of the socialist market economy that is entirely in keeping with the orientation of reform.

Other comrades feel that in a market economy in which enterprises do most of the investing, the function of government macroeconomic control should be as follows: "You found a business, I approve; you make money, I collect taxes; you violate the law, I prosecute you; you go bankrupt, I don't care." As for government controlling the scale of investment and examining and approving projects, that is not in keeping with the times. I feel this point of view does not hold water. Ours is a socialist country founded on public ownership. The market economy that we practice differs from market economies founded on privately owned businesses. Statistical classification shows a 70/30 percent split between state-owned unit and non-state owned unit investment in society-wide fixed assets during 1993. State-owned unit investment includes not only government investment but also state-owned enterprise and institution investment. Such enterprises and institutions now account for an overwhelming majority of the investment. Existing statistics do not distinguish the percentage of enterprise investment. During the current process of mechanism conversion, even a substantial amount of enterprise investment is influenced by local governments. Non-government unit investment includes the investment of city and county collective units and city and township individuals. (In fact, this includes private individual investment and foreign-owned enterprise investment.) This kind of investment accounts for 30 percent of total investment. It is divided about equally between the two groups. Therefore, the situation in China today differs from that of market economy countries in which privately owned enterprises are the main investors. The central government must improve macroeconomic regulation and control of investment. In fact, even in capitalist market economy countries and territories, private enterprises are not necessarily the sole investors. In China, where state-owned unit investment accounts for 70 percent of all investment, the state is duty-bound to exercise macroeconomic regulation and control over investment.

As for the formulation that "you found a business and I approve it," this is a very unscientific capsulization of the government's role in a market economy system. China's government most certainly is not one in which I approve

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work toward a larger scale of bankruptcies of China's state-owned enterprises. In the near future, bankruptcies of China's state-owned enterprises will increase at

the slightest sense in asking this question. If an enterprise goes bankrupt under the Western system of privately-owned enterprises, the enterprise will close down

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whatever industry you operate. Nor is it one in which no matter what money you make or how you make it, I am completely indifferent so long as I collect some taxes. China's government must exercise macroeconomic regulation and control of economic development, including overall planning of economic and social development. It must draw up a national plan to guide the orientation of economic and social development. Government must formulate industrial policies in which it specifically directs the industries whose development is to be encouraged and restricted at a given period, etc. Of course, in keeping with the needs of the market economy system, government's function must be different than formerly. It must accelerate change, a most fundamental change being separation of government administration and enterprise management, and government non-interference in matters over which enterprises have authority, including enterprises right to make their own decisions about production, operation, and investment.

### 3. How the State Should Control Investment Scale Today

How the state should control investment scale today is a major macroeconomic regulation and control problem that has not been adequately solved under the new circumstances. Some people feel that the state should not control the scale of investment, and that it really cannot control it. I feel that control is necessary. As for the specific means of controlling it, I can offer only some views in the nature of principles.

First of all, the principle that the state upholds regarding plan guidance of the scale of investment under a market economy system has to be clarified. Intellectually, the one-sided point of view must be overcome that no state plan can be drawn up since a market economy is in operation. Investment plans have to be reformed. No longer can they cover only investment in fixed assets without covering increase in working capital. During the mid-1990s, working capital came from public funds, enterprises themselves, and banks. Later on, banks supplied it. This added greatly to the banks' burdens and created credit inflation. At the same time, it also frequently caused insufficient attention to laying aside start-up funds while the project was being built. Thus, once the project was finished and went into production, turning over working capital became difficult. The experiences of western market economy countries must be, and can be, studied in regard to China's macroeconomic regulation and control of investment. Government plan can both set the absolute amount of total investment (including increases in investment in fixed assets and working capital), and it can also prescribe the total investment rate, i.e., total investment (keeping the amount of increase in investment in fixed assets and working capital separate) as a percentage of GNP. (This is because total investment includes the inflow of foreign capital, which should correspondingly affect GNP indicator. It is GDP plus net factor income from the rest of the world.) Thus, investment scale will be generally in line with national strength. As reform of the planning system

proceeds, statistics will have to be improved, statistics being prepared in advance for base period target rates.

Second, the government must draw up fairly specific industrial policies to guide the direction of investment. It must summarize the experiences of the past several years to make policy formulations more concrete and detailed. It must specify the industries in urgent need of development now and those that must be limited, and it must see to it that these plans are put into practice locally. It must also combine readjustment of economic levers concerned with execution of industrial policy to promote realization of national investment policy. Government must publish information at regular periods, announcing which product production capabilities already exceed supply and those for which the demand is greater than supply. This will enable all jurisdictions and all enterprises to understand the market production demand situation, thereby avoiding haphazard investment. Bank loans must be based on industrial policy, loans made on the basis of priorities. Economic authorities in charge cannot be powers unto themselves; they must coordinate their activities.

Third, the central bank must intensify control over fixed assets credit. A nationwide analysis of sources of funds for investment in fixed assets today shows steady decline in such credit as a percentage of government-budgeted investment. (It currently stands at slightly more than 4 percent. Through reform of the taxation system, with the greater centralization of public funds, the percentage of budgeted investment will gradually rise.) Despite a steady increase in the use of foreign capital, up until 1992, it consistently hovered around the 6 percent mark. The percentage of bank credit and self-financing has climbed to nearly 90 percent. This is a key point in controlling the sources of funds for investment in fixed assets. Currently, a substantial portion of self-provided investment funds comes from sources not previously prescribed. In some cases bank loans are used to pad out the self-provided funds shortfall. This is a very big problem. By rights, self-provided financing should come from funds that enterprises have raised themselves. At a time when one-third of concerns are losing money, one third are in danger of losing money, and only one-third are making a profit, the amount of self-financed investment has increased spectacularly over the past several years. This situation cries out for a strictly regulated definition of where the money is to come from. The central bank must strictly control the fixed assets credit plans that the government hands down. Fixed assets credit plans should be both a part of national development plans and part of bank credit plans, which must be enforced strictly and not exceeded. Financial institutions may not issue credit for fixed assets just as they please. Without prior approval, no jurisdiction and no department may take it upon itself to issue bonds and run share system pilot projects to raise money illegally for construction. National plan must be strictly enforced in the use of foreign capital. It may not be exceeded. Projects that are built with direct foreign trader investment must be better guided and standard control applied. Only by controlling

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money at its source is it possible to ensure that the scale of investment that the government sets is not exceeded.

Fourth is differentiating the different kinds of investors, putting different control measures into effect for different kinds. During the more than a decade of reform and opening to the outside world, very great changes have occurred in China's economy. Take investment, for example. Formerly, mostly the state invested, and sources of funds for investment were rather straightforward. More than 90 percent of the national budget was for investment. Today, the situation is more complex. Investors are of more kinds and the sources of funds are also more numerous. However, our plan statistics still divide investors only into state-owned units, collective units, and individuals, and plans still concentrate mostly on controlling the investment of state-owned units. In the macroeconomic control of investment, no account at all is taken of the privately owned economy, the individually owned economy, township and town enterprises, and the three kinds of partially or wholly foreign-owned enterprises that have sprung up since reform and opening to the outside world, or to investment by diverse economic components such as cooperative ventures that are partly owned by the whole people and collectives, the whole people and private individuals, and collectives and private individuals. Reform of the economic administrative system must concentrate energies on making changes here, the better to increase macroeconomic control of investment.

Society-wide total investment in fixed assets must be divided among the main economic components. In principle, control of state-owned units' investment may be somewhat tighter. Control of non-state owned units' investment may be a little looser. Specifically, state-owned units key construction, the scale of investment, and projects must be reported to the authorities in charge as a matter of procedure. Using the pretext of playing a role in the market economy to propose sweeping plans that run counter to the "examination and approval system," requiring only the "memorandum for the record system" will not do. One must realize that World Bank, renowned international financial organization that it is, also requires strict examination and approval of projects in whose construction it invests. We have gone somewhat too far in delegating investment examination and approval to local governments. This has resulted in great duplication of construction and imports. Consideration should be given to retracting examination and approval authority for greater control. Investment by non-state owned units such as privately and individually owned enterprises, township and town enterprises, and the three kinds of partially or wholly foreign-owned enterprises can be predicted through classic investigation, analysis, and estimation to make it a part of the total amount of investment. More use should also be made of economic means for guidance. The macroeconomic control experience in investment gained prior to the "three major transformations" in the early 1950s [the socialist transformation of agriculture, handicrafts, and capitalist industry and commerce] may serve as a guide. We can also borrow from foreign market economy

countries planned regulation and control of total investment. In short, so long as thinking is headed in the right direction, ways can be found.

**Liu Guoguang on Breakthroughs in Economic Reform**

94CE0622C Nanjing XINHUA RIBAO in Chinese  
24 Jun 94 p 7

[Article by Liu Guoguang (0491 0948 0342): "Decision Breaks New Ground in Economic Structural Reform"]

[Text] "The Decision on Certain Issues Relating to the Establishment of a Socialist Market Economy" adopted by the 3rd Plenum of the 14th CPC National Congress marked another big step forward in the theory of economic structural reform following the decision by the 14th CPC National Congress to make a socialist market economy the goal of structural reform. The fresh contributions and thinking of the "Decision" can be summarized as follows: First, it spells out in detail the reform goal put forward at the 14th CPC National Congress, establishes a basic framework for the socialist market economy, and lays down the major principles, policies, and tasks involved in the creation of the new system. Second, it proposes the creation of a modern enterprise system epitomized by a corporate legal person system as the way to reform large and mid-sized state enterprises, thereby separating the ownership right of the capital holder from corporate legal person property rights. Third, as far as the transformation of government functions and the state assets management system are concerned, it proposes that "government's social and economic management functions be separated from its function as owner of state assets. Diligently search for a proper way to manage and operate state assets." Fourth, it calls for the nurturing and development of markets for capital goods, including capital, manpower, real estate, technology, and information. It establishes the concept of a "labor market" for the first time. Fifth, concerning the system of macroeconomic management, it calls for major progress in fiscal, tax, banking, investment, and planning reforms in the near future. It calls for the creation of a coordinating and restraining mechanism between planning, banking, and public finance, and better overall coordination of economic operations. Sixth, the thrust of fiscal and tax reform is to replace the existing local finance contracting system with a tax separation system based on a sound redistribution of government affairs between the central and local governments, introduce a family of circulation taxes dominated by the value-added tax, unify the enterprise income taxes and personal income taxes, standardize tax rates, and broaden the tax base. Seventh, banking reform is to concentrate on turning the People's Bank of China into a genuine central bank, establishing a policy-making bank, and transforming existing specialized state banks into bona fide commercial banks. Eighth, as far as personal income distribution is concerned, it explicitly lays down the principle of "give priority to efficiency, while taking fairness into consideration" and repudiates again the egalitarian "eating-from-the-big-rice-pot" and "iron rice bowl" distribution

systems. This is an advance upon the thinking prevailing in the past few years, which puts "equal emphasis on efficiency and fairness." Ninth, turning to foreign economic relations, the "Decision" says, "Further open up the domestic market." "Create conditions for the introduction of national treatment for foreign-funded enterprises." In particular, the foreign exchange control system must be reformed. "Establish a managed floating exchange rate system based on the market and a unified foreign exchange market, gradually turning the renminbi into a convertible currency." Tenth, on the rural industrialization and urbanization front, the "Decision" says, "Guide township and town enterprises to achieve the right degree of concentration. Make full use of and transform existing small townships. Build new townships." It also calls for the reform of the permanent residency registration system in small townships. The reform of the permanent residency registration system will have a powerful impact on the integration of the urban and rural economies. The "Decision" of the 3rd Plenum has important things to say about the social security system, science and technology, and education as well, all of which cannot be mentioned here. In short, the "Decision" passed by the 3rd Plenum of the 14th CPC National Congress can be described as yet another milestone on the road toward building socialism with Chinese characteristics, another landmark in the course of economic structural reform. It has profound historical significance for accelerating and furthering economic reform and achieving the great undertaking of building a socialist market economy. In addition, it will play a crucial guiding role in real life.

(The writer sits on the standing committee of the National People's Congress and is vice president of the Chinese Academy of Social Sciences.)

#### **Wu Jinglian Discusses Inflation, Corruption, Income Gap**

**94CE0622B Beijing ZHONGGUO DISAN CHANYE BAO in Chinese 27 Jun 94 p 3**

[Article by Zhong Hai (6988 3189): "Knotty Problems Tie Up Economic Reform"]

[Text] Exchanging ideas with entrepreneurs and economists from Guangdong at a meeting recently, Wu Jinglian, the well-known economist and researcher at the development center under the State Council, noted that there are three stubborn problems in economic reform in China today: inflation, corruption, and widening income disparities.

Professor Wu Jinglian said, "Inflationary pressures had been building up for three to four years. They were first released in the first half of 1992 in the form of soaring prices. The inflation rate last year was 13 percent. In February this year the nation's retail price index rose 20 percent. Even the World

to hold down cash deposits, the ultimate effect of which was to put us in a reactive position."

Professor Wu Jinglian was particularly concerned about the social problems caused by inflation. In his opinion, the wage-earning stratum is hardest hit by inflation, followed by people in industry and commerce. This is also one reason, he argued, why most state enterprises are in a state of recession.

The second knotty problem is corruption. The economy has now become extensively monetarized, but people in power continue to interfere in the economy at will much as they did in the planned economy, effectively turning the economy into a hotbed of corruption. At present most corruption takes place in loan transactions and land deals. The official interest rate posted by state banks is lower than the rate of inflation. Negative interest rates have turned power into a money-maker, leading to corruption in the banking system. Some people call this "inflation-corruption."

The third knotty problem is the continuous widening of income gaps, particularly that between urban and rural areas. To Wu Jinglian, the rural issue lies at the heart of the problems. The paramount rural contradiction is that between the existence of massive redundant manpower and the absence of alternative employment channels. Why are there no such channels? Because of the underdevelopment of industry and commerce. Peasants cannot get rich just by farming several mu of land. To provide alternative employment for the army of unemployed in the countryside, we must invest in the development of industry and commerce. But the problem of fund shortages will not be resolved soon.

These three major maladies have been festering for years and feed on one another, hindering the deepening of economic reform in China. To cure the economy of these ills at their roots and advance reform as a whole, we must tackle two critical tasks aggressively: setting up a sound banking system and vitalizing state enterprises. And using the market to set interest rates lies at the core of a sound banking system. Negative interest rates should be disallowed for short-term loans on the market. The key to vitalizing state enterprises is the clarification of property rights and the creation of a modern enterprise system. "Transformation by grafting" remains a sound approach for the moment. However, at a time when the property rights market has not been fully established and transactions remain irregular, we must be careful to prevent price slashing, discounting, and even giving away something gratis in auctions, resulting in the loss of state assets.

#### **Fixed Asset Investment Slows Under Macroeconomic Control**

**94CE0624A Beijing ZHONGGUO XINXI BAO in Chinese 27 Jun 94 p 1**

investment of 114.1 billion yuan, up 55.1 percent, but 56.6 points back down in growth rate; a renewal and upgrading investment of 45 billion yuan, up 29.3 percent, but back down 38.7 points in growth rate; a real estate development investment of 31.7 billion yuan, up 52.7 percent, but back down 62.9 points in growth rate; and other state investment of 9.4 billion yuan, down 2.2 percent, and back down 40.5 points in growth rate.

Analysis shows our 1994 fixed assets investment to have three key features:

1. New project starts in most regions are under control. In the first five months of 1994, new project starts throughout China numbered 10,885, down 2,543 from the first five months of 1993, or 19 percent; the planned investment in new project starts was 70.7 billion yuan, down 30.2 billion yuan, or 30 percent. Of the 30 provinces, autonomous regions, and municipalities throughout China, 27 had fewer new project starts, with 18 having less planned investment in new project starts, creating a better climate for controlling the ongoing scale.
2. Local project investment-growth momentum is back down considerably. In the first five months of 1994, in

31.6 percent. Except for this investment proportion being up somewhat for raw materials industries, it was down somewhat for the energy, machinery and electronics, and light textiles industries.

2. The state of funding arrival is less than ideal. For the first five months of 1994, fund allocations to capital construction and renewal and upgrading were up 26 percent from the first five months of 1993, but 8.2 points below the investment growth rate for the same period.

As capital construction funds are not arriving promptly, construction-unit accounts payable are up sharply.

### Statistics Bureau Chief Views Economic Goals

94CE0624C Beijing ZHONGGUO XINXI BAO

in Chinese 29 Jun 94 p 1

[Report on interview with Qiu Xiaohua, chief economist at the State Statistics Bureau, by Shi Fangchuan (4258 2455 1557); date, place, and occasion not given: "What Are Our Main Current Economic Directions?"]

[Text] Editor's note: Qiu Xiaohua was born in 1958, graduated in 1982 from Xiamen University in Fujian, He is

well as one that requires macroeconomic consideration. But how are we to open up markets? And what are our market priorities? Qiu Xiaohua discusses his views on the three large markets of urban, rural, and international.

### **Urban: A Rising Small High-Tide of Consumption**

Qiu Xiaohua holds that: While the urban market is a part of our domestic market that plays a leading role, with relatively high consumption levels and standards, since its high consumption tide in the 1980's, it has gradually shifted to a stage of steady operation, now being in a new break-off period of new consumption "fever," so that it will be very hard in the short-term to see a replay of the past "waves" of consumption, with it being more likely that there will be a partial high tide of mostly individual consumption. Due to the overall impact of many factors, such as our consumption climate, consumption capacity, and consumption system, it will be hard in the short-term for new "hot-selling" consumer goods, such as houses and cars, to become general targets of urban consumers, with the release of such potential still needing time, leaving market growth in a relatively stable stage. But in opening markets, we still must not disregard the urban market, rather making early preparations to meet future new consumption high tides. We should now take appropriate incentive steps, and use flexible and diverse sales-promotion means, to form a multilevel small high-tide of consumption, in place of the former large high-tide, to ensure steady urban-market growth.

### **International: A More Competitive Society**

As to the international market, Qiu Xiaohua says that: As our foreign exchange and foreign trade management systems are reformed, our foreign trade enterprises grow more vigorous, and China becomes more competitive in the international market, the Chinese economy is likely to find a larger share of overseas markets. But competition is far sharper on the international market than on our domestic market, posing higher demands not only in the area of product quality and marketing methods, but also in ones, such as product safety and health; not only impacted by economic factors, but also obstructed by political ones; and subject not only to bilateral consultation, but also to multilateral consultation, with its complexity and difficulties impossible to downplay through "one's own wishful thinking," but rather resolvable more so only through "mutual consent," or even "multilateral consensus." As to a large country such as China, under the adverse terms of exports already accounting for a large percentage of our economy, and the international market division already essentially completed, we now need to make our stand domestically while taking part internationally, to ensure a

first half of the 1980's, rural reform and higher peasant income sharply raised rural purchasing power, bringing large rural-market growth, which became a key driving force in the rapid growth of our national economy. But in recent years, our rural market has relatively slumped. The current key limiting factors for our rural market are the two of peasant income and our consumption climate. The impact in recent years of factors, such as agricultural comparative efficiency improving slowly, even down somewhat from our early reform period; rural industrialization and urbanization going slowly, leaving large numbers of surplus farmworkers stagnating on a limited amount of land; and in the course of intensified urban reform, the fund flow shifting again from the countryside to the cities, leaving little increased investment in agriculture, with the share clearly down; has caused peasant income to grow slowly, thus bringing a relative decline to rural-market purchasing power. And commodities that have genuine prospects for gaining access to peasant households and great consumption potential, such as household appliances, are seeing relatively slow consumption growth due to consumption-climate limitations, such as power, water supply, communications, and roads, with a wide urban-rural consumption gap. But this still shows a huge rural-market potential. So in opening domestic markets, as we must focus on our rural market, then taking vigorous steps to increase peasant income, actively improving the consumption climate, and converting this potential to real purchasing power, will play a decisive role in our overall domestic-market opening.

Finally, Qiu Xiaohua says that: We need to make market-opening a key aspect of our economic work. In particular, we need to make a breakthrough in opening our rural market, taking reform steps, with economic and legal means as guarantees, to speed up our formation of market forces, and improve our product-circulation system. Only in this way can we find steadily expanding market terms for the stable growth of our national economy.

### **PROVINCIAL**

#### **Shanghai Industry Maintains Growth From Jan-May 94CE0625A Shanghai SHANGHAI GONGYE JINGJI BAO in Chinese 10 Jun 94 p 1**

[Text] From January to May industrial output value of Shanghai's industrial enterprises achieved an aggregate total of 151.369 billion yuan, an increase of 14.3 over the same period of last year. Overall industrial output reached 158.007 billion yuan, an increase of 16.3 over the same period of last year. Shanghai's industry is maintaining continued steady growth under good conditions. Leading factories of this city are as follows:

Aggregate growth for January to May is 14.3, 2.2 percentage points faster than the rate of growth for the preceding four months (12.1).

2. Links between industrial production and the market are good, with the production to sales ratio maintaining a relatively high level. From January to May the production to sales ratio for Shanghai's industries was 95.8, for a modest increase over the aggregate for the preceding four months (95.74), and 1.69 percentage points higher than industry's production to sales ratio for the first quarter.
3. There are new points of departure for industrial structure adjustment. The Shanghai industrial structure, by acting in accordance with the principles of "active development of new industries, continued support for leading industries, consolidation and enhancement of basic industries, adjustment and reform of traditional industries," has gradually guided development of Shanghai's industrial structure toward rationalization and improved quality. Leading indicators of this are: 1) The emergence of "heavy on heavy industry, light on light industry" as a developmental trend in the industrial production structure. From January to May Shanghai's heavy industry achieved an output value of 88.101 billion yuan, for an increase of 13.5, with heavy industry accounting for 58.2 of the total of Shanghai's industry; light industry achieved an output value of 63.268 billion yuan, for an increase of 15.2. 2) Rapid development of new mainstay industries has expanded. From January to May the automobile headquarters company achieved an output value of 9.624 billion yuan, for an increase of 23.9, with production of Santana sedans at 48,000 units, an increase of 22.8. 3) An array of marketable goods has been rapidly developed. For instance, from January to May, Shanghai's production of video-recorders was 208,900 units, a 2.6-fold increase.
4. Industrial export conditions have improved. From January to May Shanghai's delivery values for industrial exports was 18.707 billion yuan, an increase of 44.2, which is a rate of increase five percentage points higher than that of the preceding four months; industrial export delivery value accounts for 12.4 of Shanghai's industrial output, 0.4 percentage points higher more than in 1993, and 1.1 percentage points higher than in 1992, clearly indicating that Shanghai's industrial goods occupy an increasingly large percentage of the international market.
5. Village and town industries, as well as foreign-funded enterprises, continue to prosper. From January to May the industrial output for Shanghai's village and town industries reached 32.973 billion yuan, an increase of 34.7, while industrial output for [foreign-funded enterprises] reached 28.735 billion yuan, for an increase of 65.3. The 20.348 billion yuan of [new and increased output] for village and town as well as foreign-invested industries accounts for 67.74 of Shanghai industry's (new volume increase).

**Shanghai State Enterprises Improve 1st Half 1994**  
**94CE0625A Beijing JINGJI RIBAO in Chinese**  
**12 Jul 94 p 1**

[Text] Shanghai, which is China's largest industrial center and has the highest concentration of large- and medium-size state enterprises, has made new achievements under the deepening of reforms, the transformation of mechanisms, and structural adjustment, demonstrating again the excellence of state enterprises. The latest statistics indicate that in the first half of this year the values of overall output, sales output and export delivery were respectively 17%, 15.2%, and 46.1% higher than for the same period last year.

Shanghai's state enterprises have had a massive stabilizing and stimulating effect on Shanghai's economy as a whole, expressed chiefly in three respects:

—State enterprises act as a leading force and as a mainstay. Last year the balance of the annual average net value of economic fixed assets for Shanghai's state industries reached 73.189 billion yuan, an increase of 10% over the preceding year, and constituting 78.9% of this net value among (independent account) industrial enterprises in the city. In the same period Shanghai state industries achieved an overall output of 173.681 billion yuan, a realized profit of 26.731 billion yuan, and an export value of 25.851 billion yuan, for respective increases over the preceding year of 6.8%, 24.3%, and 24.2%, and respectively making up 61.8%, 69.8% and 66.54% of this output among (independent account) industrial enterprises in the city.

—The vigor of state enterprises in transformation of mechanisms has increased markedly. Operational autonomy for Shanghai's state enterprises has been fundamentally realized. Also established are a labor contract system and new mechanisms for (operating/sales), development, and incentives. By the end of last year 1,118 state industries in Shanghai had implemented total-employee labor contract systems and (on-the-job) contract systems, involving 1.49 million employees.

At the end of 1993 in Shanghai 44 industrial enterprises had converted to stock-based enterprises, and most of these are converted state enterprises. The total share value of these stock-based enterprises is 7.788 billion yuan, 57% of which is constituted by state capital. Last year the total sales income for these companies reached 24.036 billion yuan, for an increase of 40.4% over the preceding year.

—New mainstay industries are rapidly emerging, and the effects of improved industrial structure are increasingly apparent. Upon entering the nineties, Shanghai accelerated strategic adjustment of industrial structure, gradually forming an array of new mainstay industries in steel, automobile, communications equipment, electrical generating equipment, petrochemicals, and electrical appliances. In 1993 sales income for these six mainstay industries was 106.9 billion yuan, for a net increase of 50 billion yuan over 1988, and making up 38.2% of

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enterprises climbed from 2.2 percent in the first quarter to 5 percent in April. The difficulties that some state-owned enterprises are experiencing stem from many different causes. Examples include a too rapid increase in investment in fixed assets, failure of enterprises to work out ways to raise funds themselves, and diversion of production working capital. Late loan repayment is a rather serious problem among enterprises, and some businesses have too much production capacity, their internal management is poor, their products do not sell well, and the amount of capital tied up in unsold finished goods has increased. Such problems cannot be solved solely by banks providing easier money or increasing loans. These are problems requiring fundamental solutions. Enterprises have to follow a course of "intensifying reform, transforming their operating mechanism, shoring up their internal structure, and improving returns."

Overall, the national economy continues to maintain a fairly high growth rate today. Generally speaking, both the economy and the financial situation continue to move in a good direction. However, inflationary pressures have not been completely eliminated. Therefore, as a next step, the financial section will have to continue to carry out the State Council program for strict control of total credit. In particular, loans for fixed assets must be strictly controlled. They absolutely may not exceed the amount that the government has decreed. We must continue to rectify the financial order, resolutely halt misguided fund raising, indiscriminate call-loans made at the market rate rather than the government-set interest rate, hiking interest rates at will, reckless founding of financial institutions, and dealings that go beyond professional limits. We must genuinely enhance financial supervision and control. During the second half of this year, we must also make a special effort to rectify the accounts settlement order, rigorously enforce settlement discipline, and solve problems of sitting on bills and invoices, or diverting and intercepting customers' funds.

On instructions from the State Council, the banks have already adopted policy measures for some of the problems of state-owned enterprises: All state-owned enterprise products that are saleable and can produce a return will be given loan support at once; banks should provide nurture and assistance to enterprises whose losses can be turned into profits or reduced; banks, in coordination with local governments, may issue some credit to state-owned enterprises that have halted production because of inability to pay staff and worker wages. In addition, local governments, or government agencies in charge, may offer discounts on loans, and help enterprises revive production to get out of difficulties. Enterprises that have no hope of reversing their losses, or that are insolvent, must diligently do the preparatory work necessary to go bankrupt according to law. They should do so in groups over a

system to become closely involved in work at the grass-roots level, to improve their work style, to conduct pains-taking investigation and study, to show close concern for changes in the local economy and financial situation, to report promptly on situations, and to offer measures and suggestions to enhance and improve macroeconomic financial regulation and control. I believe that under leadership of the CPC Central Committee and the State Council, and with the joint efforts of the financial system, we can ensure full completion of financial tasks for the whole year.

### Treasury Bonds Sell Well

94CE0644A Hong Kong KUANG-CHIAO CHING  
[WIDE ANGLE] in Chinese No 262, 16 Jul 94 pp 68-71

[Article by Yu Tien-ch'en (0060 1131 1057): "PRC Treasury Bond Sales Heat Up Unexpectedly"]

### [Text] PRC Finance Officials Were Uncertain

The economics experts had predicted that the success of China's treasury bond sales in 1994 would depend on the economic reform "dynamics" and the charts that predict economic trends. This was because record treasury bond sales and a completely marketized sales style in 1994 would impact the normal operation of Chinese finance and all other reform advances.

Chinese Finance Minister Liu Zhongli said that the fiscal budget had planned national treasury bond sales in the huge amount of 100 billion yuan for 1994, on one hand to create a more relaxed climate for reform, and on the other as a key step in 1994 finance and banking reform. Starting in 1994, China's fiscal deficits are to be made up no longer through overdraft borrowing from the central bank, but rather through selling treasury bonds to the public, to keep fiscal currency issue from causing inflation. But as to whether these 100 billion yuan worth of treasury bonds could be sold out completely on schedule in market form, even Chinese finance officials were uncertain.

### Why Are 1994 Treasury Bills Selling So briskly?

So on 1 April 1994, when China's 70,000 banking network sites simultaneously offered 1994 treasury bonds to the public, several finance leaders went personally to Beijing's sales sites, to build up momentum for 1994 treasury bond sales. At one such site, Vice Finance Minister Jin Renqing [6855 0086 1987] (former Vice Governor of Yunnan) noticed an elderly gentleman converting a million yen worth of savings into RMB, all of which he used to buy treasury bills. The elderly gentleman told Jin Renqing that as 1994 treasury bonds have high interest rates, low risk, and convertibility on demand, he was buying them instead

Second, the original scale of investment envisioned in 1993 plans was greatly exceeded. The 1993 plan that the

record breaking 152.9 billion yuan was put into circulation in 1992, another record breaking 152.9 billion yuan was put into circulation in 1993. This equaled the total amount of money put into

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already oversold nationally. And three-year treasury bills were 70 percent sold out a month before the end-of-issue deadline.

But the finance officials' concerns were certainly not overdone. In 1993, the Finance Ministry issued 37 billion yuan of national debt, of which 30 billion yuan were treasury bills. But by the end of the preset issue deadline, only 15 percent had been sold. And when the People's Bank of China later twice adjusted the interest rate, raising it to 14 percent, sales remained slack in all areas, forcing the administrative means of mandatory apportionment.

So this time, the concerned department in charge drew on that experience, emphasizing the use of economic means of sales promotion, as well as planning certain preferential terms to stimulate individual buying. The annual interest rate on the two-year treasury bills issued in 1994 is 13 percent, 1.3 points higher than that on bank savings of the same term; the interest rate on three-year treasury bills is 13.96 percent, not only 1.72 points higher than that on savings of the same term, but also enjoying ensured value [inflation hedge] just like savings. In addition, the six-months and one-year nonphysical treasury bills issued at the beginning of 1994 have annual interest rates of respectively 9.8 percent and 11.98 percent, both higher than those for bank deposits of the same term. Just think, how could ordinary Chinese earn that much money so securely by working at any job?

China's 1994 treasury bonds are also much more flexible and negotiable than ever before: two-year treasury bills can be listed for sale just two months after the end-of-issue date; three-year treasury bills can be registered and reported lost, as well as cashed in at the original bank of purchase at any time after the end-of-issue deadline. And as the service of "exchanging old for new" that began for the first time in 1994 offers preferential terms, it is highly favored by individuals. This so-called "exchanging old for new" means that individuals could convert ahead of schedule on 1 April the 1991 treasury bills that mature on 1 July and the 1989 special treasury bills that mature on 1 June to two-year treasury bills issued in 1994, as well as being granted a preferential interest payment one point higher than the rate on the original treasury bills. This raises their yield to nearly 15 percent. All of this has made treasury bonds more attractive.

The concerned parties have also adjusted the various bond listing times, giving preference to ensuring treasury bond sales. Various term treasury bonds are being issued at different times, to balance the relations between supply and demand.

The experts hold that 1994 treasury bonds are selling well largely because of the macroeconomic regulation and control that was exercised in 1993. In addition, the still long path to banking commercialization, the many limitations on real estate speculation, and the longstanding low enthusiasm on the Shanghai and Shenzhen stock markets are bringing "both fame and gain" to treasury bond buying, which is another reason why treasury bonds are selling so easily.

#### China's Treasury Bond Futures Market Has Potential

Meanwhile, trading on and investment in China's treasury bond futures market are also very brisk now. Impacted by the sharp rise in trading volume on the spot market in our financial center of Shanghai, treasury bond futures are attracting sizeable numbers of bond traders and investors to regard them as operating tools.

Shanghai's treasury bond futures market officially opened for business on 25 October 1993. In the just nine months that it has been in operation, its clients have been mostly deep-pocketed ones with hundreds of thousands of yuan, as well as certain institutions, engaged in futures trading mainly as a hedge against inflation. The Shanghai Stock Exchange now has more than 100 member companies engaged in treasury bond futures trading, with nearly 3,000 exchange seats.

All of the treasury bond futures now offered on the Shanghai Stock Exchange are treasury bills issued by the Ministry of Finance in recent years, in 13 types, mainly 1991 three-year, 1992 five-year and three-year, and 1993 three-year (based on various tender times). Their daily trading volume is averaging 20,000-30,000 yuan (by contract), with their value at about 600 million yuan. While places, such as Guangzhou and Beijing, also have futures markets, Shanghai has the largest trading volume.

The deputy manager of the Shanghai Stock Exchange's Treasury Bond and Futures Department, Zhang Weixing [1728 5898 2502], said when forecasting the treasury bond futures market prospects, that in the absence of the unexpected, the treasury bond futures market will gradually grow as market factors develop, being expected to grow to an enormous size in the future. He said that as futures knowledge spreads, and the professional training of specialists and related conditions and facilities catch up, the market potential will be fully developed.

#### New Treasury-Bond Reform Trends

In the decade after China resumed treasury bond sales in 1981 until 1991, treasury bond sales were dependent mostly on administrative apportionment. But starting in 1991, the government began to reform its treasury-bond issuing system, treating treasury bonds as a financial commodity to be marketized, by taking the first step in treasury-bond marketization. By now, when policymakers are shifting their sights from the treasury bond fundraising function to its regulation and control function, treasury-bond marketization is just starting on a course to maturity. So the issuing of treasury bonds in 1994 is taking new steps, such as the issue-term structure adding short-term bonds, the issuing form being partly depaperized (paperless), and offerings being made by financial-institution underwritten purchase and exclusive sales.

To suit the investment psychologies of various investors, balance annual fiscal receipts and spending, and make up seasonal fiscal gaps, the treasury bill term variety in 1994 is also diversifying. This involves mostly adding the short-term variety to the past sales of only mid- and long-term

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and primary operating units and certain other systems, to link services, such as stock operations by securities firms, to treasury-bond business. The provisions are that the 1994 three-year treasury bills amounting to 50 billion RMB will be sold exclusively in the treasury-bill purchase-document form by the ICBC, the AB, the PCB, the BOC, and the CB; the two-year treasury bills amounting to 27 billion yuan will be sold to the public in all areas by organized securities companies, treasury-bond service departments, trust and investment company securities departments, bank savings network sites, and postal saving network points.

Another reform of treasury-bond sales in 1994 is paperless sales. In January 1994, the Shanghai Stock Exchange made two offerings of 1994 six-month and 1-year treasury bills in paperless form, amounting to 15 billion RMB, or 20 percent of the 75 billion yuan originally planned for paperless sale. The sales went quite smoothly, with each offering sold out within a week of its listing, and the stock

central bank's open market operations will occur mainly through regulating the treasury bond market, thus achieving central bank intervention in the economy. When money is tight, it will sell a certain amount of bonds, and when it is easy, it will buy back a certain amount of bonds.

As open market operations will have a huge impact on the bond market, they will certainly be practiced only after treasury bonds reach a considerable scale on the market.

From now on, information, such as Ministry of Finance news on treasury bond interest, and central bank adjustments of bank savings interest rates, will be exceptionally important, having a sharp impact on bond market operations.

#### Yang Baiwan Takes Advantage of Treasury Bonds for Stock Market Success

While the first Chinese to recognize the value of treasury bonds is not on the record, the most famous one is the later

A member of the Beijing media holds that paperless sales of treasury bonds not only concentrate treasury bond trading in on-exchange transactions, but also restrict the over-the-counter trading in treasury bonds that had been growing in recent years, with on-exchange listed trading of treasury bonds easier, business volume larger, and price fluctuation smaller. This leaves individuals not on a level playing field with institutions when selling uncertified treasury bonds, making it harder for individuals to sell.

As ever step of treasury bond marketization is generally welcomed by the public, with each easy sale of treasury bonds driven by market advances, treasury bond marketization is the general trend. So the departments in charge ought to realize that as China's money market is still imperfect, with treasury bond operating forces still in a stage of change of track and form, and public anticipation of inflation greater, they must not haggle over interest rates and issue costs, but rather need to pay the price of acquiring a perfect treasury bond market. This will be the only way to change the past frosty state of treasury bond sales.

### Tax, Financial Reforms Benefit Foreign Investors

Foreign investors in China have not only been involved in the development of the Chinese economy, but also have very close ties with overseas investments and trade with mainland China. Therefore, those in Hong Kong's economic, media, and academic circles paid very close attention to the symposium. Over 350 people, more than first anticipated, attended the meeting; some people came as far as from Taiwan and the United States.

After the reports, those in attendance asked many questions about the actual implementation of the reform programs and engaged in in-depth discussions.

### Tax Reform Benefits Foreign Investors

According to Dong Shukui, after the restructuring of the tax system, there are 11 tax categories applicable to foreign-funded enterprises and foreign personnel. They are value-added tax, consumption tax, business tax, foreign-funded enterprises and wholly foreign-owned enterprise income tax, personal income tax, resource tax, land-value appreciation tax, stamp tax, urban real estate tax, vehicle excise tax, and animal slaughter tax. Overall, the post-reform tax system should encourage foreign investments in China.

*Compared to the pre-reform days, foreign-funded enter-*

taxes as a result of the new value-added tax, consumption tax, and business tax may, upon application and if approved by the tax department, obtain a refund of all addition taxes paid during their approved period of operation, but not exceeding a period of five years.

2. *In principle, the existing preferential policies to encourage foreign investments will be retained. For example,*

(i) The "CPC Foreign Funded Enterprises and Wholly Foreign-Owned Enterprises Income Tax Law," ratified by the NPC in 1991, still applies. The five regulations on preferential treatments are:

(a) The policy of low tax rates for designated areas and industries: For example, the income tax rate has been lowered to 15 percent for foreign-owned enterprises in SEZs, production-oriented foreign-funded enterprises in the economic and technological development zones and tax-protection zones, and high-tech enterprises in the high-tech industry development zones. Foreign investors investing in port and harbor constructions and foreign-funded and joint venture banks whose capital fund input, operating funds, and operating period have reached the stipulated level and term are also entitled preferential tax rates.

In addition, the coastal open city policy will apply to the 5 coastal open zones, 14 coastal open cities, 6 open cities along Changjiang, 13 frontier open cities, 11 tourist and vacation zones, and 26 provincial capitals. Production-oriented foreign-funded enterprises there will have their income tax rate reduced to 24 percent.

(b) Taxes are reduced or exempt for designated trades and projects for specific periods. For example, foreign-funded banks operating as Sino-foreign joint ventures for a period of more than 10 years are entitled to tax exemption in the first year, and their tax will be reduced by half in the second year beginning in the year they make a profit; production-oriented foreign-funded enterprises operating for a term of more than 10 years are exempt from taxes in the first two years, and their taxes are cut in half in the third year beginning in the year they show profit.

(c) Foreign-funded enterprises reinvesting their profit in the mainland may obtain a total or partial refund of the income tax paid on that portion of their profit.

(d) Within designated scope and under certain conditions, return on investments may be entitled to tax exemption or reduction. For example, foreign investors' foreign-funded enterprises stock dividends and bonuses are exempt from income

environmental protection and development of important technologies and other undertakings are exempt from income tax.

(e) Local income tax exemption: Provincial, autonomous regional, and municipal people's governments may take local conditions into consideration when deciding on income tax exemption or reduction to encourage investment projects.

(f) In principle, after foreign-funded enterprises unified industrial and commercial tax is replaced by the value-added tax, consumption tax, and business tax, the unified industrial and commercial tax breaks provided by the state will continue to serve as reference and are still applicable. For example, within the total investment limit, the importing of necessary machinery and equipment and parts and components is exempt from import value-added tax; the importing of raw materials and parts and components for the production of export goods is exempt from import value-added tax; and, except where otherwise stipulated by the state, export goods produced by foreign-funded enterprises are exempt from paying value-added tax and consumption tax.

(g) Considering the unique nature of Sino-foreign cooperative ventures in off-shore petroleum explorations, it has been decided that the existing method of taxation will be retained. That is, value-added tax is imposed on in-kind crude oil and natural gas, and the original mining zone use-fee will be charged, but no resource tax will be imposed for the time being.

#### The Suggestion of Imposing a Land-Value Appreciation Tax Will Be Considered

During the restructuring of the tax system, people abroad are most concerned about the land-value appreciation tax. In his speech, besides giving a complete overview of the background, content, and guiding principles of the tax reform, Li Yonggui also answered some important questions. He said, some developers feel that the land-value appreciation tax is too high, and since an income tax is also imposed, they feel that they are being taxed twice. Li said that there are international precedence for imposing the land-value appreciation tax; the method of taxation and the tax rate may vary at different times. Land-value appreciation tax and income tax are two different types of tax; their regulation scope and tax base are different, therefore people should not simply call them redundant. Moreover, the developers can still get substantial rebate after paying the land-value appreciation tax, therefore it is not a heavy tax burden, and since there is no common base for comparison, it is difficult to draw a conclusion on whether the tax burden is light or heavy. If there is indeed

inflation, and risk factors and so on will be given consideration and will be clarified in the detailed implementation rules.

Li Yonggui also pointed out emphatically that only real estate transactions occurring after the regulation took effect will be subject to the land-value appreciation tax; there is no retroactive tax to worry about.

On the other hand, based on his own broad, personal contacts with clients during the restructuring of China's tax system, Hsieh Hsiao-Yen brought up some issues regarding the value-added tax, land value appreciation tax, and income tax which warrant careful studies. He used schedules to compare the old and new tax systems. He believed that if foreign investors hope to maintain their pre-tax-reform profit level, a slight price-increase will be inevitable. Under certain situations, using the new method to compute taxes may result in even lower taxes than before and enterprise profit may be even higher.

#### **Taking the Important First Step Toward Making Renminbi Freely Convertible**

Madame Hu Xiaolian pointed out that the ultimate goal of the restructuring of China's foreign exchange control system is to turn the RMB into a convertible currency. The exchange reform program which China began to implement early this year was an important first step toward this goal. The restructuring of the foreign exchange control system in 1994 consists of the following: merging of the exchange rate tracks; implementing a single, managed, variable exchange rate system based on market supply and demand; implementing foreign exchange revenue settlement system while eliminating the foreign exchange quota, foreign exchange delivery to the higher authorities, and quota management systems; implementing the system of sale of foreign exchange by banks and allowing the conditional conversion of RMB in regular accounts; setting up a unified, standardized foreign exchange market and turning designated foreign exchange banks into the main foreign exchange transaction markets; stopping the issuance of foreign exchange coupons, eliminating settlement of prices set in foreign currencies within Chinese borders, and banning the circulation of foreign currencies with China.

Hu Xiaolian pointed out that the basic foreign exchange control policies toward foreign-funded enterprises will remain unchanged in this round of reform: One, foreign-funded enterprises may keep their foreign exchange accounts and handle their normal payment and receipt via

and increase export; (ii) reinvest their RMB profit and use the foreign exchange earned by their reinvestments to balance their foreign exchange revenues and expenditures; (iii) use their foreign partners' sales channels and purchase domestic enterprises' products for export to obtain foreign exchange; (iv) purchase foreign exchange in the exchange regulation markets. Four, foreign exchange regulation markets will be retained; they will specialize in providing foreign exchange regulation services to the foreign-funded enterprises.

Things have worked out well in the five months since the implementation of the reform program. Specifically, (i) foreign exchange reserve has increased—this April's reserve has increased by more than \$8 billion compared to the end of last year; (ii) foreign exchange supply exceeds demand in the market, so that the RMB exchange rate is stable, and the dollar to RMB exchange rate has been stabilized at around 1:8.7 since the beginning of this year; (iii) it has promoted foreign trade development. In the first four months of this year, China imported and exported \$57.84 billion's worth of goods, 21.2 percent more than in the same period a year ago—specifically, exports increased by 22 percent and imports grew by 20.3 percent.

Hu Xiaolian indicated that foreign exchange system reform which began early this year only included the conditional conversion of RMB in regular accounts, which included only remittance from trade. However, to make RMB freely convertible, the following four conditions must be satisfied: (i) a reasonable foreign exchange rate system to avoid having dual exchange rates; (ii) ample foreign payment capacity; (iii) perfect enterprise management mechanisms; (iv) effective macroeconomic regulation and control measures. In her opinion, China must continue to work hard to fully satisfy those conditions. Dr. Tseng Shu-Chi also stressed that the goal of making RMB freely convertible cannot be achieved overnight; a cautious attitude is necessary.

#### **Key Points in Today's Restructuring of the Financial System**

The restructuring of China's financial system was put into effect early this year. Ma Delun delivered a concise report at the meeting.

The goals of this round of financial reform are:

1. To set up a strong and effective central bank macroeconomic regulation and control system. Currently, the central bank is in the process of setting up the financial

national commercial bank headquarters only. The basic functions of the People's Bank of China branches are to handle financial supervision and management, statistical survey and analysis, lateral cash regulation, management of the state treasury, cash allocation, and foreign exchange control and interbank clearance.

- (ii) Reform and improve the monetary policy system: The ultimate goal of the People's Bank of China's monetary policy is to stabilize the currency as a way to promote economic growth. The intermediate and operational goal is to regulate the money supply, credit volume, interbank short-term loan rates and bank provisional fund rate.

People's Bank may utilize the following monetary policy tools: Legally-set reserve requirement rate, central bank loans, rediscount rate, open market operations, central bank foreign exchange operations, loan quotas, and central bank deposit and loan rates. People's Bank of China takes into consideration the macroeconomic situation and utilize the above policy tools skillfully and selectively to regulate and control the money supply. People's Bank began controlling the financial institution's asset-liability ratio and their asset risks in 1994.

People's Bank has set up a good survey and statistical system and monetary policy warning system to strengthen macroeconomic analysis and forecast and provide scientific basis for formulating China's monetary policies. It has set up a monetary policy commission to make the formulation of monetary policies more scientific.

- (iii) Strengthen the central bank's supervision and management of the nation's financial industry. Starting out from the basic desire to guard against financial hazards and protect the investors' interests, People's Bank follows the law to strengthen the supervision of banks and non-bank financial institutions. Their supervision consists primarily of licensing and registration, checking of legal representatives' qualifications, delineating the business scopes, setting capital sufficiency rates, and determining asset liquidity and risk factors.

2. To set up policy-oriented banks. The purpose of setting up policy-oriented and business-oriented finances so as to solve the problem of state-owned specialized banks' taking on dual responsibilities. It sever the direct tie removed from its operations, it will become a state-owned commercial bank specializing in mid-to-long-term credit business.

- (ii) Opening the Agricultural Development Bank to be responsible for the policy-oriented loans for state grain, cotton, and oil reserve; contractual procurement of agricultural and sideline products; and agricultural development and so on. It will allocate and supervise the use of aid-agriculture funds on behalf of the financial ministry. Agricultural Development Bank of China will take over the agricultural policy-oriented loans (creditor's rights) currently handled by Agricultural Bank and Industrial and Commercial Bank and assume the corresponding People's Bank loans (debts.)

- (iii) Opening the Import-Export Credit Bank: Import-Export Credit Bank's business is to provide buyer's and seller's credit for the importing and exporting of complete sets of large equipment and provide export loan discounting and export credit guarantee for Bank of China in the exporting of complete sets of mechanical and electrical products; it will not handle commercial bank businesses. Import-Export Credit Bank's funds will come primarily from the financial ministry's special funds and financial bonds.

3. To turn the state specialized banks into bona fide commercial banks. After separating out the policy-oriented businesses, the existing state-owned specialized banks (Industrial and Commercial Bank, Agricultural Bank, Bank of China, and People's Construction Bank) will be turned into state-owned commercial banks and operate in accordance with modern commercial bank management mechanisms. First, they must abide by the following management principles: they must make independent management decisions, assume their own risks, take care of their own profits and losses, and discipline their own behavior. Second, the bank headquarters should strengthen centralized management and their ability to regulate funds in a unified fashion. One account should be kept for the whole bank, and market transactions among different branches of the same bank are prohibited. Third, only state-owned commercial bank headquarters may gather funds from the central bank; the headquarters must take full responsibility for the liquidity of the entire bank's assets and its ability to pay. Fourth, commercial banks' state-owned properties should be managed according to the state-owned property management laws and regulations. State-owned commercial banks should compete

Furthermore, the financial reform goals also include setting up a unified, open financial market with orderly competition and stringent control; providing proper guidance for the non-bank financial institutions' steady development; strengthen the financial industry's infrastructure, and setting up a modern financial management system.

What are the most urgent tasks in financial reform and supervision? According to Ma Delun:

*One, when changing from the old system to the new, it is necessary to control the total money supply to prevent runaway inflation.* Ma said that the current situation is good: First, money continues to be taken out of circulation—between January and April, a net of 5.07 billion yuan in cash has been retrieved, compared to the more than 30 billion yuan in net input during the same period a year ago. Second, there has been substantial increase in bank deposits. In the first four months, assorted bank deposits have increased by more than 260 billion yuan, 110 billion yuan more than previously; this included an increase in enterprise deposits of 100 billion yuan.

*Second, there should be a process in transforming specialized state banks' transformation into state-owned commercial banks.* Separating out the policy-oriented businesses

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## INDUSTRY

### Statistics on June Output of Main Chemical Products

HK1207134394 Beijing CEI Database in English 12 Jul 94

[Text] Beijing (CEIS)—Following is a list of the output of main chemical products in June 1994, released by the State Statistical Bureau:

Item	Unit	6/94	6/93
Chemical fiber	10,000 t	22.65	17.62
Sulphuric acid	10,000 t	19.38	13.75
Dense nitric acid	10,000 t	3.27	3.87
Soda Ash	10,000 t	46.13	44.47
Caustic Soda	10,000 t	35.19	34.61
Ethylene	10,000 t	16.28	16.33
Calcium chloride	10,000 t	24.81	23.47
Pure benzene	10,000 t	6.54	5.92
Synthetic ammonia	10,000 t	203.86	200.83
Chemical fertiliser	10,000 t	209.42	192.09
(Nitrogen)	10,000 t	150.11	142.62
(Phosphorous)	10,000 t	57.51	49.02
(Potash)	10,000 t	1.70	2.45

structure, gradually industries in steel, electrical equipment, and electrical appliances. These six mainstays have a net increase of 1.8 billion yuan, up 38.2% of

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per capita, 3.7 times more than the 1978 record, while the average annual per capita wage for staff members and workers reached 2,140 yuan, up 2.48 times compared with 1978.

In the construction of a socialist market economy, means of production are commodities, and so are the labor force

In China, government finances are playing a leading role in the distribution of national income. In distributing national income, the government should, on the one hand, maintain a sound financial foundation so that the market force can play a basic role in allocating resources. On the other hand, it should give full play to the function of financial administration in regulating the economy—from

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the two preceding years will remain quite stable. What will prevail after the resumption of GATT is a historic moment. Recognizing that countermeasures will be the initiative and responsibility.

Domestic enterprises should dominate the domestic market end. In the long term, textile products of China may enter the joint ventures set up in clothing manufacturing. Singapore may turn to the Chinese market. This has yet constituted a major industry.

Set at home, because giving China a distinct market share of its exports are drastically reduced. Clothing enterprises from Sino-foreign joint ventures are borne out by both developing nations' commercial experience in the past year and opened itself

competitive even at the home. Already for years with foreign investment in a relatively open clothing industry is one of the capital. In other industries in the nation, has been in a quasi-industry is concerned, mean relatively little about, but the competition of enterprises in China may be expected. In the past, the position to import the equipment conventional domestic enterprises which put them at a disadvantage to GATT different between Chinese and foreign thus providing a fair competition.

Enterprises come to be enterprises, some of

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the special restrictions the latter now labor under will be eliminated. In the case of the apparel industry, the most important change will be a relaxation of the export requirements now imposed on foreign-funded enterprises. More and more such enterprises will shift their attention to tapping the domestic market. Many developing nations encourage direct foreign investment primarily because foreign-funded enterprises tend to be more export-oriented. Because of these enterprises, the special economic zones in many nations in Asia and Latin America are living up to their role as "export processing zones" and have become a vital force in those nations' export drive. In contrast, foreign companies which invest in China are clearly attracted to the vastness of the domestic market. Not only do manufacturers of international brand name clothing eye China's domestic market, but even those Hong Kong and Taiwan enterprises which used to target the overseas market often shift their market focus to the mainland after moving their operations to China. Thus the phenomenon of domestic enterprises existing side by side on the domestic market with Sino-foreign joint ventures and wholly foreign-funded enterprises will be with us for a long time to come.

There will be only limited changes in the international climate for low-and mid-priced clothing exports. As noted above, China's accession to GATT will not eliminate the major factors now impeding the exporting of its staple clothing products. This is not all. Should there be a surge in low and mid-priced clothing exports, China may run into even stiffer resistance. China's textile and clothing exports enjoy a distinct low-wage low-cost edge and for that reason have become the main target of trade protectionists in some developed nations. Of the 345 anti-dumping cases filed in the EC between 1983 and 1992, 35, or 10 percent of the total, were aimed at China, more than any other nation. China has become the preeminent target of protectionist policies in the EC. The United States also regards China as its foremost competitor. A case in point is the United States-Chinese textile dispute, now in its 14th year. Thus as far as low- and mid-priced textile products are concerned, the thrust of the export drive should be the diversification of export markets.

Favorable changes are in store in the production and business climate of enterprises making and exporting upscale clothing after China rejoins GATT. To begin with, these enterprises will be able to import the raw materials and equipment they need for their production. This is one area where most clothing enterprises now feel an acute need for improvement. Secondly, it is profoundly significant that the decision-making authority of enterprises in foreign trade be enhanced as part of foreign trade reform. In the future the growth potential of China's clothing exports will lie mainly in upscale clothing that involves multiple processing and has a higher added value. To tap this potential and ensure a steady increase in China's clothing exports, we must expand the foreign trade decision-making authority of industrial enterprises as an institutional safeguard.

The foremost significance of the foreign trade decision-making authority of enterprises is that it breaks down the barrier between domestic enterprises and the foreign market, enabling them to come in direct contact with each other. The difference between upscale clothing exports and their less expensive counterparts is that in the case of the former, non-price competitive factors play an important role. The international market demands a lot from electrical machinery products. Product quality, style, grade, packaging, delivery date, and post-sale services... all of them have an effect on a product's competitiveness. Each customer has his own individual specifications. If production enterprises cannot come into direct contact with their customers and do not have a full understanding of the changing demands of the international market, they stand to lose the potential international market, however minor their errors may be in timing, design, manufacturing, marketing, or after-sale services. According to research conducted by World Bank personnel back in 1976 on 113 successful Korean export enterprises, direct contacts with foreign buyers are the most important source of technology. There is much more to enterprise-foreign buyer relations than negotiations and contract compliance. Buyers provide enterprises with information relating to the technical standards of comparable foreign products as well as information on product design, quality, and technical operations. Through visits to the enterprises, they are able to offer the latter suggestions covering all areas. Three-quarters of the enterprises reported that the demands and suggestions of foreign buyers had an impact on product design, style, technical specifications, and packaging. Most enterprises acknowledged that some of their exports were manufactured directly in accordance with the specifications of foreign buyers with respect to design and style. More than half of the enterprises considered custom contacts important to the production of new products and varieties. Furthermore, contacts with customers and acceptance of their suggestions were regarded as essential to the enterprises' effort to upgrade their quality control, cost accounting, and cost control technologies. To boost its sales on the foreign market, the design personnel and engineers of Sanxing Group of Korea not only have direct contact with purchasing managers from overseas, but they would often visit the stores when they go on business trips abroad to talk to customers and ask them about their preferences and dislikes. This is because they realize that the telephone, the fax machine, and purchasing managers' descriptions do not adequately tell them what the customers want. For instance, we may know from general accounts that customers in a certain nation prefer red clothing, but what shade of red? Within a single color—red, there are numerous nuances, all with different market implications.

Another factor favoring the continued development of China's clothing industry after it rejoins GATT is that the industry itself has already become fiercely competitive at home. In a closed market that excludes foreign competition, domestic enterprises would like to deal with the smallest number of competitors. When the market is open

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impetus of production development in the machine-building industry, and, imbued with full confidence, promote the sustained, steady, and healthy development of production and economic operations throughout the whole year.

#### Present Overall State of Operations in the National Economy

Since the beginning of this year, overall operations of the national economy have developed favorably. Concrete manifestations of this fact are the smooth initiation of various reform measures and their normal functioning. Growth rate of the national economy is attaining the 9 to 10 percent range, anticipated by the imposition of macroeconomic control, industrial development is tending in a positive way, the trend of excessive investments in fixed assets has to a certain extent been checked, the monetary situation is one of stability and healthy development, and financial revenue shows steady increases.

However, the problems that exist within the process of our economic advances still deserve a very high degree of our attention. First, although the tendency toward currency inflation has been halted, commodity prices are unduly high. May prices of popular consumer goods had been 21.3 percent higher than during the corresponding period of last year, and retail commodity prices had risen 18.9 percent.

Second, contradictions of market restraints have become more acute. From January to May, the total amount of retail sales of consumer goods, after duly accounting for the commodity price factor, had actually increased 6.1 percent, which is lower by 3 to 4 percentage points than the figure for normal years. At present, for over 90 percent of all categories of commodities in the market, supply and demand are essentially in balance, or supplies exceed demand. Because investments in fixed assets are strictly controlled, sales in the market for means of production tend to be stable, with a decline in the actual volume of transactions.

Third, some deep-rooted contradictions, which adversely affect revitalization of state-owned industry, have by far not yet been eliminated, and the whole group of state-owned industrial enterprises has not yet been able to extricate itself from its difficult situation. In June, gross output value of state-owned industry increased 3.9 percent, which was a somewhat larger increase than in the preceding months, but there was still a very evident disparity to the rapid growth in the nongovernment industry.

Besides, investments in ongoing constructions is unduly large, unfavorable factors in agricultural production have not yet been completely eliminated, etc., all these are unfavorable factors that adversely affect the health of the economy at the present time and for a certain period of time to come.

#### Basic Tendency During the Last

It is evident from economy that the mainly economic measures, instituted very timely, made them effective. Transformations of market and perfecting main components of economy and neither of them

Of course, even those measures that have shown results of rapid economic development in different degrees, the total economy is not completely firm. There is very little room for revolution of structures of long standing, and the length of time relationship between development, and it is still left during the period of accelerating transformation of economy system. In the national economy, controlling any aspect, we predict that the measures taken in the months to maintain control measures will act with maximum effect in accordance with firm implementation following six tasks. These tasks will mainly have to do with the year:

First, the state will increase investments in fixed assets in efforts to optimize the new situation. Second, among the subjects, diversification of forms of ownership is a possibility that is imposed by the state. Sources of construction funds will be strictly controlled, and bringing the present sluggish consumer market for means of production will in future have to volume to concession as with the adjustment of effective measures of capital toward business structure, and to the needs of the machine-building industry in circumstances presented.

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on opening up new markets domestically and abroad, on seeking out new points for increased production and for increased profits, and must not allow themselves, having failed to effect their own structural readjustment, to be held back by the bearish market.

Second, on the precondition of an effective control of the total credit volume, the state must optimize the direction of investments, accelerate fund turnover, and promote the normal rotation of social funds, with due differentiation between enterprises of different conditions. At present, finance constitutes the most important means of macroeconomic control, and the state will on the whole continue during the latter half of this year its policy of monetary stringency, strictly controlling the scale of loans and the issue of currency. At the same time, to resolve the shortage of working funds in state-owned enterprises, the state shall continue to support enterprises that produce marketable products, that can realize final sales, and that work profitably, by providing them with the working capital needed for their production. Enterprises of the machine-building industry must therefore meet the demands of the above-mentioned credit policy, organize their production according to the principle of "increasing production of marketable goods, limiting production of products for which demand has leveled off, and stopping production of unmarketable goods." Overstocking and increasing indebtedness must be avoided, as otherwise bank credits will be difficult to obtain.

Third, the state must strengthen administrative control over markets and commodity prices, must continue to effectively stabilize the market and stabilize commodity

### Certain Specific Macroeconomic Control Measures and External Conditions Affecting Production of the Machine-Building Industry

Judging by the above-stated analysis of the basic direction of the national economy and of the state's macroeconomic control, and considering the regulatory and control measures that are presently already in place, or will soon be in place, we expect that the macroeconomic conditions which production development in the machine-building industry will face in the latter half of the year will turn from a needfully stringent condition to a condition of stability within a state of stringency, and that the situation will continue to develop in the direction of unceasing improvements. However, we must still watch out for problems and difficulties that have shown up, or will show up in the future, and must in good time adopt effective measures in order to promote the healthy development of production in the machine-building industry.

#### 1. Concerning investments in fixed assets:

First, the overall market demand does not allow one to be optimistic. The state has this year allocated 1.3 trillion yuan of social funds for investments in fixed assets, which is almost 10 percent more than the 1,182.9 billion yuan actually spent last year. However, considering the price increase factor, the demand that will be allowed to be satisfied this year, in its actual volume, can be only slightly larger, or essentially even, compared to last year, a fact which allows little optimism for a larger demand in this year's machinery market.

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According to the above-stated credit policy, the ministry of machine-building, together with other relevant agencies, is actively helping enterprises to coordinate things and find channels through which to obtain funds and loans. Supported by the State Economic and Trade Commission and the banks, they did indeed resolve the problems of some enterprises by obtaining for them limited amounts of funds specially to support their production. For instance, the No 1 Heavy Machinery Works [yi zhong] obtained 5 million yuan, Taiyuan Heavy Machinery Works [tai zhong] obtained 3 million yuan, the Harbin Cable Manufacturing Plant 2.5 million yuan, and the Harbin Insulator Manufacturing Plant 2.5 million yuan, and in this way the emergency in some enterprises was to some degree overcome. At present, the ministry of machine-building is again making efforts to provide special production funds for the Lanzhou Petroleum Company, for "Xi Gao" [6007 7559], for No 2 Heavy Machinery Works, for Tianjin Heavy Machinery Works, and for the Xiangtan Electric Cable Plant; reports to that effect have already been submitted to the State Economic and Trade Commission which is now deliberating these cases and about to decide on them. Most recently, the machinery department of the Qinghai Provincial Government reported that the Industrial and Commercial Bank branches of various ranks in the area were making a thorough inspection and study of enterprises to gain information on fund requirements. They found the following plants to have stopped production or semi-idle since the beginning of this year: the Qinghai Foundry, a micro-electronic equipment plant, an automobile plant, a machine tool forging plant, a mining machinery plant, and a motorcar refitting plant. Making an exception to its rules, the bank granted loans to help these enterprises

accumulation of stocks or increases of indebtedness when determining the needs for working capital of state-owned enterprises. Production and accumulation of stocks of unmarketable products is not to be permitted under any circumstances. The notice demands that earning economic returns be maintained as the central consideration, and that there must not be any wild rush to increase production of goods that have no market and will yield no economic returns. All economic and trade commissions and banks must adopt various measures (including the granting of credits) to spur on enterprises to readjust their product mix. Enterprises must not supply goods without giving consideration to the solvency of their business partners, merely to keep their own production going. While making exceptions in the case of special factories or products that must not stop production and supplies because they are critical for the economic lifeline of the nation, all enterprises that cannot in due time pay for goods or services received must be refused goods and services, even if supply contracts had been signed. If, in the course of settling arrears, the default is due to an act for which the supplier is responsible, such cases must not be considered as falling within the scope of the present general clearing of accounts.

### 3. Problems concerning the importation of large-sized forged or welded parts and key components of power generating equipment.

To support the production of power generating equipment, which the Ministry of Machine-Building has called for and assisted, the state is giving attention to the handling capacity of the Ministry of Machine-Building for the importation of key components and foundry or welded parts of power generating equipment. The state has provided \$10 million as a subsidy to make up for the exchange rate differential, to be used for the importation of large-sized forged and welded parts, key components, accessories, and some control equipment for 300,000 and 600,000 kw power gener-

industry, as it tries to overcome its difficulties and to soon attain a more prosperous state.

Second, structural reforms have provided a favorable environment for larger exports of machinery and electrical products. Following the reform of the foreign exchange and trading system and the establishment of a unified foreign exchange rate, which had entailed abolition of the system of enterprises retaining a portion of the foreign exchange earnings and turning in taxes at parity value, the power of the foreign trade enterprises has increased, and so has their capability of bearing costs in terms of foreign exchange. This has benefited expansion of exports of machinery and electrical products. In the reform of the investment structure it was also decided to establish an export credit bank, to provide credits to buyers and sellers in exports of machinery and electrical products (especially of complete sets of equipment), a fact which is of major significance for the expansion of exports of machinery and electrical products, as well as for raising returns from such exports.

Third, the further recovery of the Western economies and the continued rapid growth of the Asia-Pacific economy are providing a very large market capacity for exports of machinery and electrical products. According to a forecast by the Economic Cooperation and Development Organization of the United Nations, dated 6 June, economic growth in the industrial developed countries of the West can be expected to accelerate. Their average growth rates for this year and next year may reach from 2.6 to 2.9 percent; for the United States alone, this year's rate will be 4 percent, next year's 3 percent; for Japan, this year's 0.8 percent, next year's 2.7 percent; for Germany, this year's 1.8 percent, next year's 2.6 percent.

##### 5. Policy regarding the rural economy, development of the agricultural machinery industry.

Since the beginning of this year, the CPC Central Committee and the State Council have repeatedly emphasized the high degree of importance which they attach to the fundamental position of agriculture. The "Outline of the State's Industrial Policy for the Nineties" pointed out that the primary task in China's economic development during the 1990's is to energetically develop agriculture and the rural economy, and to increase peasant incomes. The conference on work in the rural areas set forth: We demand that governments at all levels try every means to squeeze out some financial resources for the support of agriculture, and that they ensure that funds intended to support agriculture will actually reach their proper destination. We demand funds for the establishment of 500 commodity grain and 150 commodity cotton base counties, and that public finance and banks implement these tasks according to plan and to the full amounts required. It is also necessary to establish and perfect a service organization for the socialization of agriculture, and to raise agricultural productivity; central and local governments

shall year by year increase their investments in agriculture and render support to agriculture-related industries. Following implementation of the above-stated policies, it will indeed have become possible to promote the development of the rural economy, which in turn will be beneficial for raising peasant incomes and purchasing power, and as a consequence give impetus to the revival of demand for agricultural machinery, also to demand in related markets and to the development of production in enterprises of the agricultural machinery industry.

##### 6. External prerequisites of production, such as raw materials, energy sources, transportation.

The shortage of resources has all along been a "bottle-neck" that restricted increased production in the machine-building industry, and especially during the rapid growth of the machine-building industry during the last two years, the restriction of the said "bottle-neck" had been an extremely serious matter. In the first half of this year, under the effect of financial stringency and with a relative leveling off of the growth rate of production, the supply of resources appears to have become less stringent. However, the real situation is that the contradiction of fund shortages is merely covering up the supply-demand contradiction in the external prerequisites to production. It is anticipated that in the latter half of this year, in the wake of a resurgence of economic growth, and while the supply of resources will on the whole be sufficient to maintain a steady development of the machine-building industry, the tendency in certain areas will still be one of greater stringency and potentially restrictive contradictions. It is hoped that the relevant government agencies of whatever rank and the enterprises too will soberly recognize the situation, will prepare early, and will take all precautions in advance.

First, the railway transport situation tends to become strained. Through energetic efforts on the part of the machine-building ministry and coordination and cooperation from several quarters, it was possible during the first half of this year for the machine-building ministry, together with relevant agencies of the railway ministry, to hold a coordinating conference at Zigong, Sichuan Province, particularly on the question of transporting the products of the Eastern Boiler Manufacturing Plant. Another conference was held at Deyang to discuss the transportation of 2,800 "medium plate" rolling mill housings from the Liuzhou Iron and Steel Plant. The conferences were to mitigate the machinery transport difficulties in the southwest, and positive results have indeed been achieved in the rail transportation of machinery. However, the problem of transport shortages is still troublesome for some districts and for certain large items of machinery, and on the average transport facilities can satisfy only about 50 percent of the transport needs for goods. As to the outlook for the second half of this year and next year, according to reports from the railway ministry, essentially no new

funded enterprises may maintain their foreign exchange balance through the following methods: They can (i) improve management, produce better quality products,

guarantee the realization of the nation's unified monetary policy. People's Bank headquarters generally handle fund gathering and distribution with

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trunk lines will be placed into service this year and next year, and since it will furthermore be a peak railway construction period, present railway transportation will certainly be adversely affected by the ongoing work (laying of double tracks and electrification) and the large-scale transportation of railway construction materials. Add to this the fact that railway transport capacity cannot be stored up as a reserve, so that an even more seriously tight situation in railway transportation will occur any time production will rapidly pick up. More remote areas and enterprises shipping their products to ports with strained facilities, such as Shanghai, Guangzhou, Liuzhou, and Chengdu, must be particularly prepared for things that they have to expect.

Second, energy supplies are sufficient in some places and tight in others. As informed by the ministry of electric power, the nation has presently a 20 percent shortage of electric power, and during the first half of this year the electricity supply situation has still been very tight in some areas. It is anticipated that the imbalance in energy supply will continue during the second half of this year, and that it will even get more severe in some areas that are experiencing a steady resurgence of economic growth. Output of crude oil during January to May had increased 1.6 percent, while the amount of refined oil had declined by 0.4 percent, compared with the corresponding period of last year. As output at the old oil fields in the east are tapering off, increased domestic demand in the second half of this year will mainly depend on increased imports and reduced exports. Output of raw coal during January to May had increased 2.2 percent over the corresponding period of last year. It is anticipated that partial shortages may occur during the second half of this year in the coal consuming eastern and southern areas of the country due to insufficient transport facilities. At present, some key enterprises still report insufficient supplies of energy. For instance, all enterprises of the Eastern Electric Power Complex are generally experiencing shortages of electric power and of natural gas. The East China Automobile Plant had this year planned for a 2.48 megawatt [Mw] steam turbine for its power station, far in excess of its formerly planned capacity of 0.6 Mw, but the said plant has had an electricity consumption quota of only somewhat over 2,000 kw, which leaves it short of at least 5,000 kw. The said plant also requires on the average 50,000 cubic meters of natural gas per day, but can presently be supplied with only 16,000 cubic meters.

Third, the latent steel materials supply-demand contradiction tends to become even more acute. Resources are tight in the nonferrous metals market where demand is tending to become brisk, and indications are that prices will be rising. The present overall situation appears to be that in the commodity markets profitable goods are not selling well, slow-moving goods are becoming even less salable, and purchasing as well as selling is listless. The main reason is that the shortage of funds contradiction covers up the demand-supply contradiction

with its shortage of commodities, as it inhibits consumer demand for certain commodity. Particularly the various new measures adopted by the State Council to stabilize commodity prices, and the official promulgation of such macroeconomic controls as the abolition of futures trading in steel products have caused a decline in purchasing and selling in most commodity markets of the country. For instance, the Notice of the State Planning Commission of 13 May (document "Ji Jia Ge" No 535) tightens control over iron and steel products. For steel materials specially used by railways the state will fix prices as in the past. For key constructions important for the national economy and the people's livelihood, for steel used for production, or used for military and for agricultural purposes, the state's guiding prices shall be applied. For important iron and steel products, enterprises may adjust prices and then file such with the authorities for reference. Prices for all other iron and steel products are to be freely determined according to supply and demand in the market. According to recent investigations by agencies of the ministry of materials, the cost price of imported 0.35 mm cold-rolled silicon-steel sheets is presently 15,000 yuan per ton, while the present market price is 12,000 to 13,000 yuan per ton. The cost of imported No 1 electrolytic copper is about 22,000 yuan per ton, while it has presently been transacted at less than 20,000 yuan per ton. If this goes on, the latent supply-demand contradiction will grow even more acute. However, an overview of the situation shows that, assured by the very ample stocks of 25.66 million tons at the end of 1993, and with the addition of adequate imports and domestic production increases, the latent contradiction in the whole year's supply and demand of steel materials will not immediately become evident in the second half of this year. However, because the machine-building industry uses large quantities of steel materials of complex categories and specifications, demanding high quality and good adaptability, the relevant government agencies should make effective preparations and actively organize materials supplies for the production in the second half of this year and during next year.

There are presently indications of shortages and advancing prices in the nonferrous metals market. The price of aluminum has gone up substantially. Middle of April aluminum prices in Guangzhou, Chungqing, Shanghai, and Liaoning generally went up by 1,000 to 1,500 yuan per ton. At the beginning of May, prices in Shanghai, Suzhou, and other places continued to climb, having presently already reached 15,000 yuan per ton; at times there are merely quotations, but no goods available. Electric wire and cable manufacturers advise that present production is like wanting "to cook a meal without rice," as the saying is. On the other hand, the price for steel-reinforced aluminum cables is lower than the price for aluminum. Copper prices are stable with slight increases. In April, copper was in most places priced at 19,700 yuan per ton. The price rose to 19,800

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## ECONOMIC

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**Official Views Trade With Various Countries**  
**94CE0617A Beijing GUOJI JINGMAO XIAOXI**  
**[INTERNATIONAL TRADE NEWS] in Chinese**  
**20 Jun 94 p 1**

[Article by Chen Guangming (7115 1639 2494), Deputy Director of the West Asia and Africa Department, Ministry of Foreign Trade and Economic Cooperation: "Striving To Develop Economic and Trade Cooperation With the Nations of West Asia and Africa"]

[Text] China is paying close attention to developing friendly trade and cooperative relationships with the nations of West Asia and Africa. In recent years, China has carried out significant expansion of economic cooperation and trade relationships with the countries in this region.

In 1993, the trade volume between China and Middle East nations reached \$3.122 billion, an increase of 37.9 percent over 1992. In 1993, bilateral trade between China and Middle East nations was as follows: \$81.8 million with the United Arab Emirates; \$69.7 million with Saudi Arabia; \$12.2 million with Syria; \$11.7 million with Jordan; and \$7.997 million with Lebanon.

The reasons that China's trade with the nations of this region has developed so much are that bilateral trade tends greatly to become mutual aid, and China's economy is developing rapidly, so there is a growing source of export goods. China's products are of good quality and are fairly priced, so they are welcomed by local consumers. With the end of the Gulf War and the civil war in Lebanon and Middle East peace negotiations, the situation in this region has tended to be peaceful. In addition, many countries have adjusted their economic policies, the economy has developed to a certain degree, and with an active market, demand has increased. But generally speaking, China's trade volume with Middle Eastern countries is still not very big, occupying only 2 percent of those countries' market trade volume. Not only is this share not in keeping with China's export capacity, it is also far too little when compared with the massive importing potential of the Middle East market.

China established trade relationship with the countries of North Africa early in the fifties, and by 1993, China's trade amount with the countries of this region was \$64.3 million, which was not much trade growth, being an increase of only 1.8 percent over 1992. Bilateral trade volume was: \$22.4 million with Egypt; \$16.6 million with Libya; \$12.4 million with Morocco; \$3 million with the Sudan; \$5.845 million with Tunisia; and \$4 million with Algeria. In 1993, China exported \$43 million to countries in this region, which was a slight reduction from 1992. The trade volume here is similar to that with Middle East nations, that is, the trade volume between China and this area does not fit China's exporting capacity and importing potential with this area. There is great development potential here as

In the future the growth potential of China's clothing exports will lie mainly in upscale clothing that involves multiple processing and has a higher added value. To tap this potential and ensure a steady increase in China's clothing exports, we must expand the foreign trade decision-making authority of industrial enterprises as an institutional safeguard.

Implications.

Another factor favoring the continued development of China's clothing industry after it rejoins GATT is that the industry itself has already become fiercely competitive at home. In a closed market that excludes foreign competition, domestic enterprises would like to deal with the smallest number of competitors. When the market is open

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well, and is one of the important markets from which China can receive foreign exchange in cash.

China's trade with the Middle East and West Africa began in the fifties, and at present, we have signed governmental trade agreements with 18 nations in this region, and have also established trade combine associations with some countries. It is also foreign currency in cash trade. In 1993, China's trade volume with the nations of this region was \$72 million, which was 1.4 percent of the gross import and export volume of this region's nations. China exported \$60 million to this region, which was 2.7 percent of the region's total volume; we exported most to the nations of Nigeria (\$12 million), Togo (\$11 million), Benin and Cote d'Ivoire (\$5 million each).

Foreign trade holds an important position in the economies of the nations of East and South Africa. The nations of that region have a trade volume of \$64 billion. China's trade with the region in 1993 was up to \$1.139 billion (including trade with South Africa), an increase of 136.2 percent over 1992, and of this China exported \$46.7 million and imported \$67.2 million.

China's major exports to West Africa are textile products, light industrial products, which occupied about 70 percent of the total export volume to this region; others are five minerals, local products and domestic animals (tea) and chemical products. Exports of mechanical and electronic products are growing. China chiefly imports crude oil, fertilizer, petrochemical products, cotton, phosphate, cocoa, coffee, tobacco leaves and cashews, etc.

In developing trade with West Asian and African countries, there are several special countries for which we must have suitable controls on that trade.

Iraq is under UN sanctions, so exports to Iraq are limited only to such humanitarian materials as medicine and food. In addition, these must be reported and kept on file with the UN's Resolution 661 Committee; materials for everyday life can be exported to Iraq only after they have been reviewed and approved by the Resolution 661 Committee. If Iraqi businessmen want to engage in trade with China, we can do this if it is conducted via a third country. In our trade with Iraq, we should give our attention to practical results and making stable and gradual progress; export can be carried out only with guarantees that we will receive foreign currency; we can sign agreements of intent, maintain contacts, and prepare to conduct trade and cooperation with Iraq after the sanctions have been eased.

Israel has established diplomatic relations and signed an intergovernmental trade agreement, but considering its conflict with Arab nations, China should proceed on the principle of enthusiasm and caution in its trade with Israel, paying attention to practical results, and not being an advocate. Stipulations are that trade groups visiting Israel must report to the Ministry of Foreign Trade and Economic Cooperation for approval, and non-trade groups visiting Israel (at the level of ministerial bureaus and departments) must report to the Ministry of Foreign Affairs for approval.

South Africa is a large African nation which still has not established diplomatic relations with China. At present, there are only non-governmental contacts between the two countries. Chinese trade groups to South Africa must report to the Ministry of Foreign Trade and Economic Cooperation for approval.

Because Libya is under UN sanctions because of its suspected involvement in the Lockerbie Pan-American Airlines aircraft bombing case, China should strictly comply with relevant UN agreements. Therefore, we must control the following in our trade work with Libya: 1) Be in strict compliance with the UN Security Council's resolution, and not supply any weapons, oil refining facilities or airplane parts, and have no commercial contacts with Libyan Airlines. 2) Adopt an attitude of being enthusiastic and cautious in developing trade cooperation with Libya: grasp opportunities, develop exports to Libya and contract for labor cooperation. 3) We should pay attention to obtaining guarantees that we will receive foreign currency in our trade with Libya, and in general should go the way of credit payments which are in cash guaranteed via a third country.

A few countries have been unable to decline the temptation of Taiwan's "money diplomacy." Forgetting morality to seek profits, they have established or restored diplomatic relations with Taiwan, China terminated diplomatic relations and all governmental agreements with these countries, but non-governmental trade and mutually profitable cooperation can still go on.

#### Proposed Measures for Development

94CE0617B Beijing GUOJI JINGMAO XIAOXI /INTERNATIONAL TRADE NEWS/ in Chinese  
29 Jun 94 p 4

[Article by Chen Guangming (7115 1639 2494), Deputy Director of the West Asia and Africa Department, Ministry of Foreign Trade and Economic Cooperation: "How To Explore and Develop Trade Cooperation With West Asian and African Countries"]

[Text] China is focusing its attention on developing friendship and trade cooperative relationships with West Asian and African countries. In recent years, China's economic cooperation and trade contact with the nations of this region has seen significant progress.

Meanwhile we should give our attention to some practical problems in developing trade with West Asian and African countries:

Many of the nations of this region have unstable political situations, with armed conflict, disturbances and turmoil breaking out in some countries, seriously affecting their economic development and import-export trade. Many of these countries have economic difficulties, shortages of foreign currency and are debt-ridden, suffering currency depreciation and inflation, and deteriorating trade conditions. Quite a few countries have high import customs duties, plus they restrict import of certain commodities.

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Before we make our concrete analyses, we must first select the pertinent indices and look for those with the strongest correlation so that we can explain matters even more directly. Earlier we used two indicators to reflect population size—birth rate and child-rearing coefficient. No doubt those two indices have a strong internal correlation. As for their correlation with the income level, there is a clear difference between the two. The birth rate only reflects births at a single point in time (one year) while the child-rearing coefficient reflects the birth situation over a period of time (a total of 14 years.) Clearly using the population situation over time as an indicator to reflect the per capita income is more convincing than using the index for a single point in time. We should also mention that the coefficient for caring for old people and that for child-rearing basically have the same meaning, and the reason the former is not used is that the rising rate of urbanization in the regions, increased employment of older people, and the expanded coverage of pension and insurance, to different extents, have increased the old people's income and have also made it more difficult to use that coefficient as an index for assessing per capita income.

Lets look at the population quality again. This is a very complicated issue, and there are many indices which can be used as bases of evaluation, but a more comprehensive and a easier-to-measure index is the population's educational standard. Here we have chosen the proportion of people with formal higher education and the proportion of illiterate and semi-illiterate population as our indices.

Below we will analyze the correlation between the population factor and the level of income. In fact much of the data shown earlier, to different degrees, came to one conclusion: Behind the regional income disparities are population size and quality differences.

Another issue that needs further studying is that between the child-rearing coefficient and the level of education, which factor has more impact on the income level?

Let us compare the eastern and western regions. In 1992, the eastern region's per capita income was 466 yuan higher than the west's (1,431 versus 965 yuan); the two region's child-rearing coefficient difference was 0.0621 (0.4353 versus 0.3732.) Thus in the western region, the larger population's impact on the income level was 89 yuan ( $1,431 \times 0.0621$ ) which accounted for 19 percent of the

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### Labor Law As Means of Protecting Workers' Interests

94CE0647B Beijing GONGREN RIBAO in Chinese  
23 Jul 94 pp 1, 2

[Article by Wei Jianxing (1414 0256 5887): "Powerful Weapon for Safeguarding the Legal Rights and Interests of Staff and Workers; Diligent Study and Publicizing of 'Labor Law' Application"]

[Text] The "Labor Law of the People's Republic of China" was discussed and passed by the Eighth Session of the Eighth NPC Standing Committee, and will take effect beginning 1 January 1995. This is a major event in China's socio-economic and political life. It has a bearing on the personal interests of millions upon millions of workers, and staff and workers throughout the country have long looked forward to it. Formulation and promulgation of the "Labor Law" on the basis of the constitution is an important action in the improvement of China's legal system. It marks an important step in the intensification of reform and perfection of the legal system of the socialist market economy. It provides basic guarantees for bringing labor entirely within the legal system. It is also a true expression of the application of the party's basic guiding policy of wholehearted reliance on the working class, and ensuring the position of staff members and workers as masters in the country and in enterprises. The "Labor Law's" promulgation for implementation promotes economic development and social progress in protecting workers' legal rights and interests, in adjusting labor relationships, and in building and safeguarding a labor system that is in keeping with a socialist market economy. It holds major real significance and long-range historical significance for realizing the overall interests of the entire Party and country in "seizing opportunities, intensifying reform, expanding the opening to the outside world, promoting development, and maintaining stability." Diligent study and publicizing of the application of the "Labor Law" is one of our important current tasks.

Study and publicizing of the "Labor Law" must be done in terms of the overall interests of reform, development, and stability. Its importance must be fully realized, and it must consciously serve realization of overall interests. Proceeding from realities, Comrade Deng Xiaoping gave clear instructions on drawing up the "Labor Law" at the Central Committee Work Conference convened in late 1978. Today, the basic framework for China's socialist market economic system is in place, and reform has entered a key period of major breakthroughs and overall advances. Reform, development, and stability cry out for the inauguration of the "Labor Law," and full application of the "Labor Law" will promote the overall cause of reform, development and stability. Application of the "Labor Law" must be closely linked to economic system reform, particularly labor system reform. Not only does the "Labor Law" place under the law the results and summarization of experiences of labor system reforms since the beginning of reform and opening to the outside world, but it provides

further legal clarification of reform. This conditions for solution have long impeded n system reform, promote state and enterprises ( owned enterprises and promote continuity in staff and workers in economic system refo the country's economy

In studying and pub Law," the legislative p and interests of labor highlighted. The "Constitution of China" makes clear the theme that China is socialist country four class, and an alliance o the country belongs to the national will of our the people. It is a fundamental system. The constitut about safeguarding laborers. The legislati give substance to these is a regulator of social adjustment of social relations. The "Labor Law" of labor relations. It has an important role as a Therefore, maintenance goals of protecting the is clearly of exceptional "Labor Law" must be legislative purpose. Moving ahead with giv the "Social Security" "Labor Protection Law socialist China, the pos in their own house bro and interests of staff. Nowadays, instances of staff and workers ar some concerns, partic business men have inv workers cannot always cannot be ignored. Migrat purposes of the legal rights and inter according to law is bo socialist labor law sys confronting us.

Study and publicizing "Labor Law" must serve to n law, making fullest use and readjustment role outside world, the buil

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according to law, abide by provisions of the law, and observe their legal responsibilities. Full use must be made of the supervisory role of the public to shape an effective mass law enforcement supervisory mechanism that links and unifies administrative supervision from top to bottom with public supervision from bottom to top for joint promotion of "Labor Law" enforcement.

putes will increase markedly. Therefore, use of the strength of the "Labor Law" to improve the regulation of labor relations, to bring labor relations under the legal system, and to promote the steady and harmonious development of labor relations is an extremely important task confronting us. This task requires that we strive, within the scope of the applicability of the law, to make the most of the role of the "Labor Law" in normalizing and adjusting labor relations. The key to this task lies in ensuring that all the rights of workers are looked after. We must protect the rights of workers to enjoy equal employment and choice of occupation according to law, to enjoy their right to social security and public welfare, their right to request the adjudication of labor disputes, and other labor rights that the law provides. These eight rights affect the vested interests of staff and workers. The position of staff and workers as masters in their own house is real in its application to material benefits. Ensuring the position of staff and workers as masters in their own house requires that they enjoy these eight rights. This is the basic meaning of the enjoyment of sacred rights, and the regulation of labor relations. At the same time, laborers must complete their work quotas, improve their professional skills, enforce labor safety and health regulations, and abide by labor discipline and professional ethics. They must consciously discharge both their rights and their obligations. Units employing labor must set up and perfect a regulation system based on the "Labor Law," and take the lead in adjusting or eliminating regulations in violation of the "Labor Law" to ensure that laborers enjoy the rights and discharge the duties of laborers.

Study and publicizing of the application of the "Labor Law" requires greater supervision of law enforcement, administrative supervision and mass supervision combining to safeguard the solemnity and authority of the law. Formulation of a good "Labor Law" is no easy task, but good enforcement of the "Labor Law" is even harder. Development of a socialist market economy requires both quickening of the pace of legislation, particularly economic

Study and publicizing of the application of the "Labor Law" must make fullest use of the role of the trade union organization. Applying the "Labor Law" is the joint task of the whole party and all society. It is a task in which trade unions shoulder a major responsibility that no others can assume. The "Labor Law" provides the basic legal underpinnings for labor unions to represent and safeguard the legal rights of workers according to law, for independently and voluntarily conducting activities according to law, for supervising according to law how well employers are abiding by labor laws and regulations, and for conferring upon trade unions various functions so that trade unions can better safeguard the labor rights and interests of staff and workers. Trade union organizations at all levels, and the rank and file of trade union cadres must increase awareness, unify thinking, and improve leadership. They must place on their daily agenda of important tasks the study and publicizing of application of the "Labor Law." They must pay close attention to study and cadre training, intensify publicity, and do a good job of supervising law enforcement. They must speed up the founding of trade unions in firms in which foreign businessmen have invested, and make positive efforts to set up labor dispute reconciliation committees. In particular, they must guide staff and workers in the signing of labor contracts, and they must represent staff and workers in signing collective contracts. They must strive to make application of the "Labor Law" a trade union function and carry out the role of trade unions. The rank and file of trade union cadres must shoulder the important tasks that the law confers. They must work together with the Party and government at all levels and with the NPC to safeguard the authority and solemnity of the "Labor Law" in protecting the legal rights

working class. It should greatly encourage and stimulate the zeal of millions upon millions of staff members and workers for devoting themselves to reform, opening to the outside world, and socialist modernization, and to make a new and greater contribution to the intensification of reform, the promotion of development, and the safeguarding of stability. The rank and file of staff members and workers must diligently study the "Labor Law," and cherish the rights and duties that the "Labor Law," confers on them. They must strive to study the law, understand the law, observe the law, and use the law. They must regulate their conduct according to the law, protect their own rights and interests according to the law, and establish stable and harmonious labor relations with employers according to the law in order to realize the social goals of the work of the whole Party and whole country, and make fullest use of the master spirit and the main force role of the working class.

## POPULATION

### **Heilongjiang Regulations Regarding Family Planning**

94CE0629A Harbin HEILONGJIANG RIBAO  
in Chinese 24 Jun 94 p 3

[HEILONGJIANG RIBAO report: "Heilongjiang Provincial Regulations on Family Planning" adopted by the Ninth Session of the Eighth Heilongjiang Provincial People's Congress on 21 May 1994]

#### [Text] Chapter I—General Provisions

Article 1—These regulations are formulated in accordance with the "Constitution of the People's Republic of China" and the relevant laws and decrees of the state and in close connection with the actual situation in the province in order to control population, raise the quality of life and make Heilongjiang's population growth coincide with its socio-economic progress.

Article 2—All institutions, groups, PLA troops, enterprises, units and other organizations in the province and citizens residing in the province should comply with these regulations.

Article 3—To promote family planning is the basic state policy of our nation. Children must be born in a planned manner. Late marriage and child-bearing, few and better births and one child per couple are preferred. Nonplanned childbirths are strictly forbidden.

Both husband and wife have the obligation to implement family planning and freedom to practice family planning or prefer not to have any child. Citizens are legally protected in implementing family planning.

Article 4—The work of family planning must be carried

In carrying out family planning, it is necessary to rely on scientific and technological progress, strengthen prenatal management and continuously raise the overall standards in doing such work.

Article 5—People's governments at various levels must take the lead in carrying out family planning in their respective administrative districts. The administrative departments for family planning are in charge of doing the work of family planning for the people's government at the same level and responsible for the implementation of these regulations.

Mass organizations such as the various departments in public security, industrial and commercial administration, civil affairs, construction, labor and financial affairs; trade unions, women's federations, youth leagues and the associations for self-employed workers should hold themselves responsible for the implementation of these regulations and join their efforts in implementing the family planning program in a comprehensive way.

#### **Charter II—Childbirth Regulation**

Article 6—Pregnancy and childbirth are allowed only after the couple has completed its marriage registration and obtained the child-bearing certificate in accordance with law. Pregnancy without the child-bearing certificate is considered nonplanned pregnancy and childbirth without the child-bearing certificate is considered nonplanned childbirth.

A marriage is considered as late marriage when both spouses are at least three years older than the lawful marriageable age and it is their first wedding. A childbirth is considered late childbirth when both parents are at least three years and nine months above their lawful marriageable age.

Article 7—Spouses who are legally married may have another child provided that they have applied and won the approval of the administrative department at or above the county level, that the wife who has completed her 28th birthday and already has a child of at least four years of age and that they have met one of the following conditions:

- (1) Both spouses are either returned overseas Chinese or compatriots from Taiwan, Hong Kong or Macao who have returned to China to take up residence for not more than six years.
- (2) Both spouses are farmers and the only children of their families.
- (3) All the brothers in the family are farmers. Only one of them is capable of child-bearing while others have not

- (5) Both spouses are of a national minority which has a population of less than 10 million people in the nation, or one of the spouses is of the Olunchun, Ewenk, Hezhe, Daur or Kirgiz nationality.
- (6) The couple has met other special conditions and won the approval of the provincial administrative department for family planning.

Article 8—If one of the spouses has restored his or her fertility after he or she is diagnosed as infertile by a medical unit appointed by an administrative department at or above the county level and has adopted a child according to law, a couple may have a child with the approval of the administrative department at or above the county level.

Article 9—A couple may have another child if their son or daughter suffers from nonhereditary disability and will not become an able-bodied person when he or she grows up as verified by a disability evaluation department appointed by the administrative department for family planning at the prefectural (city) level and with the approval of the administrative department for family planning at or above the county level.

Article 10—A remarried couple without any nonplanned childbirth and with the approval of the administrative department for family planning at or above the county level may have another child if they meet one of the following requirements:

- (1) One spouse is childless while the other originally has one child who is at least actually four years old.
- (2) One spouse is actually 28 years old but childless, while the other spouse whose former husband or wife died and left him or her with two children.

Article 11—If both spouses of a couple are of the Olunchun, Owenk, Hezhe, Daur or Kirgiz nationality and have two children with a four-year age difference and with the second child who is actually four years old may have a third child with the approval of the administrative department for family planning at or above the county level.

Article 12—A couple who may have another child with the approval of the administrative department for family planning at or above the county level must pay a fee for social childcare programs. Measures for this fee collection will be worked out by the provincial government.

Article 13—If a farming couple who conforms with the childbirth regulations is issued a certificate to allow them to have a second child, this certificate will become invalid when one spouse changes his or her household registration from a rural area to a city and the wife is not yet pregnant.

Article 14—The childbirth certificate issued to a couple

### Chapter III—Technical Services

Article 15—The administrative department for family planning handles the work of providing technical services for family planning in a comprehensive way, conducts check-ups and supervises the family planning technical service stations in carrying out their work, and coordinates with other relevant departments in doing the work of eugenics.

Article 16—Organizations which provide services for family planning should disseminate and propagate scientific knowledge on population and family planning and give couples of child-bearing age advises on birth control and provide them with contraceptives.

Scientific research departments for family planning and units in charge of the work of doing scientific research work on family planning should strengthen their work in birth control and popularize the use of safe, effective but simple contraceptives and birth control methods.

No unit or individual is allowed to use any contraceptive or birth control method which has not been approved by any relevant administrative department of the state.

Article 17—Except for the use in diagnosing hereditary diseases, it is forbidden to verify the sex of an unborn baby.

Article 18—Childbearing couples who have not obtained any childbirth certificate should adopt reliable birth control measures. Those who need check-ups for their contraceptive devices according to these regulations should undergo such check-ups on time. Those who have non-planned pregnancy should terminate such pregnancy on time.

Article 19—Units and personnel that practice birth control techniques must be certified by the administrative department for family planning at or above the county level or the public health administrative department. Personnel who perform birth control techniques must apply such techniques in strict compliance with the conventional procedure.

Self-employed physicians are not permitted to perform surgeries for birth control or for the restoration of fertility.

Article 20—Fees for performing any birth control surgery on any worker should be paid by the unit for which the patient works. When the birth control surgery is performed on an enterprise worker's unemployed dependent, the enterprise should pay for the expenses according to these regulations. Expenses for surgeries performed on temporary or contract workers should be paid by units which have hired these workers. Expenses for surgeries performed on farmers or unemployed urban residents should be paid by the relevant administrative departments.

prefectural (city) level, the unit which performs the surgery must timely treat the patient for such implication.

**Article 22**—When those who have received sterilization surgeries need to restore their fertility, they must file applications with the proper certification from a relevant unit and get approval from the administrative department for family planning at or above the county level before any surgery can be performed to restore their fertility.

#### Chapter IV—Organization and Management

**Article 23**—The people's governments at various levels are held responsible for working out the population programs for their respective administrative district and list such programs in their own plans for national economic and social development within their own jurisdiction. They must pay attention to both material and population growths, implement a system whereas principal leaders assume the responsibility for fulfilling the family planning targets, and regard their abilities in implementing such responsibility system as an important criterion for evaluating various units and the leading cadres at all levels. They also must implement the single vote veto system.

**Article 24**—Town and township people's governments and subdistrict offices must set up organs for the training of family planning assistants and various administrative offices for family planning.

Heads of the villagers and residents committees are responsible for family planning work within their own jurisdiction. These committees should hire part-time family planning personnel.

**Article 25**—The people's governments at various levels should improve the childbirth service organs at the county, township and village levels and encourage the setup of the mass organizations for family planning.

**Article 26**—The work for family planning in all institutions, groups, PLA troops and undertakings is the responsibility of the leading comrades in one's own unit. They should set up offices in charge of family planning work and assign full-time or part-time staff members to provide necessary services and carry out family planning work in one's own unit.

Family planning work for workers in various enterprises is the responsibility of their legal representatives. These enterprises accept the leadership and supervision of the local people's government in this connection. They should set up their own offices and hire their own personnel in charge of family planning work.

**Article 27**—Family planning work for those who are permitted to retain their jobs with their salaries suspended is the joint responsibility of their original units and the people's government of the town or township where their

township where their household registration is located or the local subdistrict office. Family planning work for unemployed urban residents is the responsibility of the town or township people's government where their household registration is located or their local subdistrict office. Family planning work for the drifting people is the joint responsibility of the people's government of the town or township where their permanent residence is or where they live right now or their local subdistrict office with the people's government of the town or township where they actually live right now playing the major role. Various relevant departments must coordinate with one another and join their efforts to carry out family planning work well for the floating population.

**Article 28**—The administrative departments for family planning at various levels should examine and approve the issuance of the childbirth certificate according to the proper procedure and set up a sound filing system for such certificates.

**Article 29**—It is necessary to implement the "Law of Statistics of the People's Republic of China" in compiling figures for family planning. Under no circumstances should any unit or individual conceal facts, omit figures or practice fraud in compiling figures for family planning.

**Article 30**—The people's governments at various levels must guarantee the supply of the funds needed for family planning, and gradually increase such funds with the growth of the economic development and the increasing revenue.

A fixed portion of the overall funds raised by a town or township should be used in family planning.

**Article 31**—Personnel doing family planning work should be given the necessary devices to insure their job safety. Enterprises, institutions and units should decide on their own pay scale for the protection of their own personnel who work in the field of family planning.

The remuneration of those part-time personnel of the villagers and residents committees who work for family planning should be slightly lower than the allowance and remuneration of the principal responsible persons of the local villagers' and residents' committees.

#### Chapter V—Preferential Treatments and Rewards

**Article 32**—Unmarried workers who are actually 30 years old or older should enjoy the same privilege as those who are married in purchasing residential houses or allotting housing assignments.

the entry into Vietnam of some shoddy bogus Chinese products through border trade, the SRV Government has now adopted a policy of limiting border trade while nurturing trade conducted by state-run companies. Preferential tax rates have been worked out to help steer imports

which was a slight reduction from 1992. The trade volume here is similar to that with Middle East nations, that is, the trade volume between China and this area does not fit China's exporting capacity and importing potential with this area. There is great development potential here as

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JPRS-CAB-94-045  
19 August 1994

## ECONOMIC

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Farmers of late marriage should be permitted by the people's government of the town or township where they reside to perform no or less volunteer work for that particular year.

**Article 34**—If workers are legally married and opt for late childbirth, a woman worker may be entitled to six-month maternity leave with pay without affecting chance for pay adjustment and promotion. A man worker is entitled to five to ten days of paid convalescence leave which can be extended under special conditions with the recommendation of a medical unit.

Farmers who opt for late childbirth should be permitted by the people's government of the town or township where they reside to perform no or less voluntary work for that particular year.

**Article 35**—Those who receive birth control surgeries enjoy the following preferential treatments:

- (1) A woman worker may take two days of leave and may be exempted from any hard physical labor within a period of seven days, if she has undergone a surgery to have an intrauterine device put in.
- (2) A woman worker may take one day of leave to have her intrauterine device removed.
- (3) A man worker is entitled to 15 days of leave if he undergoes a vasectomy surgery.
- (4) A woman worker is entitled to 21 days of leave if she undergoes a tubectomy surgery.
- (5) A woman worker who opts to have her pregnancy terminated is entitled to take leave ranging 21 to 40 days according to different conditions.

Such workers will continue to receive their wages and bonuses when they are on leave.

Appropriate subsidies will be given to those farmers and unemployed urban residents who have accepted birth control surgeries by the people's government in the town or township where they reside and the local subdistrict office.

**Article 36**—A legally married couple of childbearing age with a single child who has adopted birth control measures and guaranteed to have no more children should be issued a "Certificate of Honor for One-Child Parents" with the verification of their original unit and the people's government of the town or township where they reside or their local subdistrict office and with the approval of the county-level administrative department for family planning and entitled to the following preferential treatments:

- (1) They are entitled to a monthly bonus of at least five yuan or compatible preferential privileges for being one-child parents from the month when they receive the certificate to the date when their child completes his or her 18th birthday.
- (2) When they are given housing assignments or allowed to purchase a residential house or a lot for housing,

their single child can be counted as two persons in determining the floor space of the residential house or the area of the lot.

- (3) Preferential treatments will be given to children of one-child families in nursery or school enrollment, medical care and employment.
- (4) In rural areas, preferential treatments should be given one-child families in social relief, help-the-poor program, the supply of means of production and technical training.
- (5) When workers who are one-child parents retire at the specified age, they will receive 5 percent more pension on the basis of their "Certificate of Honor for One-Child Parents." They may receive 10 percent more pension if their one-child son or daughter dies and they have no children since then. However, their pension plus the aforementioned extra benefits should not exceed their original basic pay.

Farming one-child couples who have no children after their children died will be given financial subsidies and their livelihood be taken care of by the people's government of the town or township where they reside.

**Article 37**—In addition to the preferential treatments given to a one-child family, a couple who meets the one-child requirements, opts to have a single child and has been issued a "Certificate of Honor for One-Child Parents" will be given a one-time bonus of not less than 300 yuan or equivalent preferential treatments for being single-child parents with the examination and verification of the county-level administrative department for family planning.

**Article 38**—Bonuses for one-child parents are issued as follows:

- (1) When both spouses are workers, their bonuses should be equally shared by the units where they work.
- (2) When one spouse works, while the other is an unemployed urban resident, their bonuses should be paid entirely by the unit where one spouse works.
- (3) When both spouses are unemployed urban residents, their bonuses should be paid by the subdistrict office of the place where they reside.
- (4) Bonuses to self-employed industrial and commerce businesspersons should be paid by the local industrial and commercial administrative department as specified.
- (5) Bonuses to persons who are allowed to retain their jobs without pay should be paid by the unit which has recruited them. If no unit has recruited them, their bonuses should be paid by the original unit.
- (6) Bonuses to farmers should be paid by the people's government of the town or township where they reside.

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must report to the Ministry of Foreign Trade and Economic Cooperation for approval, and non-trade groups visiting Israel (at the level of ministerial bureaus and departments) must report to the Ministry of Foreign Affairs for approval.

These countries have economic difficulties, shortages of foreign currency and are debt-ridden, suffering currency depreciation and inflation, and deteriorating trade conditions. Quite a few countries have high import customs duties, plus they restrict import of certain commodities.

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**Article 39**—It is necessary to advocate the old-age pension insurance program and other types of family planning-related insurance programs for one-child families and two-daughter families.

**Article 40**—Those units and individuals that have distinguished themselves in doing family planning work should be commended and rewarded by the people's governments at various levels or the relevant departments.

#### Chapter VI—Restrictions and Punishments

**Article 41**—When a remarried couple has more than one child, both spouses can no longer enjoy the preferential treatments and rewards given to one-child parents and their children.

When a couple who receives the "Certificate of Honor for One-Child Parents" is approved to have one more child, it must return such certificate; stop enjoying, from the month of the approval, the preferential treatments and rewards given to one-child parents and their children; and reimburse the one-child parents bonus it had received.

**Article 42**—Family planning administrative fees will be collected from couples of child-bearing age who refuse to adopt birth control measures, to accept check-ups for their contraceptives as specified, and to timely terminate their pregnancy for nonplanned childbirth in despite of persuasion and education and those units in which there are workers with nonplanned childbirths.

Those with nonplanned childbirths must pay nonplanned childbirth fees.

Measures to collect nonplanned childbirth fees and family planning administrative fees will be worked out separately by the provincial government.

**Article 43**—The responsible person of the unit and the person directly held responsible who fail to report on statistics figures for nonplanned childbirths or conceal facts will be fined 300 yuan and 500 yuan respectively for each unreported case.

When a people's government at any level or an administrative department for family planning practices fraud, alters or forges statistic figures for nonplanned childbirths, the responsible person of this government or department and the person directly held responsible for this illicit action will be fined from 1,000 to 3,000 yuan for each instance.

Any unit or individual that is involved in the aforementioned circumstances will be stripped of the honorable titles they had won before.

**Article 44**—For those who forge or fraudulently issue or receive child-birth certificates, certificates for the verification of sick or disabled children and other certificates related to family planning, the parties will be fined ranging from 1,000 yuan to 3,000 yuan for each instance.

**Article 45**—For those who have verified the sex of any unborn child or performed surgeries for birth control or for

the restoration of fertility in violation of regulations, their illegal income will be confiscated and the person who is directly held responsible for this type of malpractice must pay a fine ranging from 3,000 yuan to 10,000 yuan.

For those self-employed physicians who have violated the provisions in Section 2 of Article 19 of these regulations, they will be handled in accordance with the aforementioned provision. In addition, their licenses for medical practice should be revoked by the relevant department.

**Article 46**—For those who have embezzled and misused funds for family planning, funds for nonplanned childbirths, family planning administrative fees and other outlays for family planning, the responsible person of the unit and the person directly held responsible for the illicit action will be fined from 500 to 1,000 yuan. In addition, they must return the funds they have embezzled or misused to the proper authorities.

**Article 47**—For those who have interfered with others in doing family planning work and shielded others for nonplanned pregnancy or childbirths, each party may be fined 1,000 yuan to 3,000 yuan.

**Article 48**—Those who encroach upon the personal and property rights of personnel doing family planning work and their family members, and disrupt the order in carrying out family planning work will be punished by the public security organs according to laws and regulations.

**Article 49**—State functionaries who have violated the provisions of these regulations will be given administrative sanctions according to the seriousness of the circumstances.

Those who have violated these regulations and constituted a crime as a result will be prosecuted for their criminal liabilities.

**Article 50**—Fees for nonplanned childbirths, family planning administrative fees and fines should be collected by the town or township people's governments or subdistrict offices. Fees for social childcare programs should be collected by the county-level administrative department for family planning which is responsible for screening and approving childbirth certificates. Fees and fines that the town or township people's governments or subdistrict offices have not collected or failed to collect within a prescribed time limit should be left to the administrative department for family planning at or above the county level to make decisions and collect according to law.

**Article 51**—Fees for nonplanned childbirths, family planning administrative fees and fees for social childcare programs should be placed under the unified management of the administrative department for family planning at or above the county level. Special funds should be set up and deposited in a special account. All these funds should be solely used for family planning.

**Article 52**—When the parties disagree with the decision made by the administrative organ, they may file an appeal to the administrative organ at the higher level for

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of the contract purchasing system to be traded on the free market, as a guide to the development of a market system, to pave the way for setting up a cotton wholesale market. The second step would be to gradually establish a cotton spot wholesale market, enabling producers and marketers to meet directly, with trading prices fluctuating with the relations between supply and demand. The state would act as a legal representative in this trading.

handling cotton to curb the market. 3. Finally, based on this spot wholesale market, we need to set up a futures wholesale market, turning it into the key player in our cotton market system, with most cotton buying and selling done in futures trading form. This will enable not only farmers, but also textile enterprises, to base their production actions on the future state of supply and demand and on price conditions.

JPBS-CAR-94-045  
19 August 1994

## MILITARY

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### Profile of Guangdong MD Commander Wen Yuzhu 94CM0341A Hong Kong KUANG-CHIAO CHING [WIDE ANGLE] in Chinese No 260, 16 May 94 pp 50-52

[Article by Li Zhongluo (2621 0022 3157): "Guangdong Provincial Military District Commander Wen Yuzhu"]

#### [Text] Changes of Chinese Communists' Provincial Military Districts

In the early 50's, the Chinese Communist provincial military districts were divided into two classes—the second class and the third class. There were 18 second-class military districts—Shanxi, Suiyuan, Inner Mongolia, Shandong, Zhejiang, Fujian, Henan, Hubei, Hunan, Jiangxi, Guangdong, Guangxi, Chuandong, Yunnan, Guizhou, Gansu, Shaanxi and Xinjiang. Third-class military districts were Hebei, Pingyuan, Chahaerh, Ningxia, Qinghai, Liaodong, Liaoxi, Jiaodong, Bohai, Luzhongnan, Sunan, Wannan, Wanbei, Xiangxi, Ganxinan, Hainan, Chuannan, Chuanxi, Chuanbei, Shaannan, Kashi, Dihua, Ili and others. There were four military branches—Rehe, Jilin, Songjiang and Longjiang. The Tibet Military District (second class) was established in December 1951. The Sichuan Military District (second class) was established in October 1952 after the Chuandong, Chuanxi, Chuanbei and Chuannan military districts were abolished. In 1988, 27 provincial-level military districts, one Defense command (wei shu qu 5898 2050 0575) and two garrison commands (jing bei qu 6226 0271 0575) were established.

Provincial military districts (defense command and garrison command) of the Chinese Communist PLA form the organizational system of the army. They are also departments of the provincial CPC committees (autonomous regional CPC committees and municipal CPC committees) which handle military affairs and the departments of the government at the specific level in dealing with military recruitment. They are placed under the dual leadership of the army system and the specific local party committee or government. They have their own leading organs such as the headquarter, political department and logistics section. Under their command, there are several military sub-districts and units to handle the local military affairs. Mainly they are in charge of militia work, army recruitment and mobilization. Some of them also carry out border defense duties and coastal guard missions.

#### Ye Jianying Was Once Commander of Guangdong Provincial Military District

The Guangdong Provincial Military District was initially established on 9 November 1949. It was mainly composed of the Fujian-Guangdong-Jiangxi Border Column, the Guangdong-Jiangxi-Hunan Border Column, the Central Guangdong Column, the Guangdong-Guangxi Border Column and the Guangdong-Guangxi Column. Its military establishments were incorporated into these of 15th Army Headquarters. Ye Jianying was commander and concurrently political commissary of the military district, while Deng Hua, Chen Guang, Hong Xuezhi and Zeng Sheng were deputy commanders; and Lai Chuanzhu, Yin Linping

and Feng Baiju were deputy political commissars. Hong Xuezhi was concurrently Chief-of-Staff and Xiao Xiangrong the head of the political department of the military district.

In July 1950, the 15th Army establishments (later changed to 13th Army establishments) moved northward to get ready to participate in the Korean War. The 13th Army establishments were transferred from Henan to Guangzhou and incorporated into those of the Guangdong Military District. They also changed their designation into the 15th Army with Ye Jianying as its commander and concurrently the political commissar. In May 1951, the Guangdong Military District was expanded to South China Military Region with Ye Jianying as its commander and Tan Zheng and Tao Zhu as political commissars in command of various military sub-districts in Guangdong, the Hainan Military District, the Guangxi Military District and the seven corps stationed in Southern China. In June 1952, the South China Military Region was emerged into the Central South China Military Region, and a Guangdong Armed Forces Work Department and four third-class military districts were set up. The designation of the Guangdong Military District was restored in September 1955, and its military establishments were incorporated into those of the public security headquarters of the Guangzhou Military Region. (Zhan Caifang and Long Shujin were commanders on separate occasions, and Ouyang Wen and Yin Linping were political commissars on separate occasions). In June 1956, the Guangdong Military Region Public Security Army Headquarters and the Guangdong Military Region military establishments were reorganized to become the Guangdong Military Region Public Security Army Headquarters and the Guangdong Provincial Military District. (The designation of the public security army was rescinded in September 1957).

Later, Long Shujin (1957-1962), He Dongsheng (1962-1964), Huang Ronghai (1964-1969), Zhang Jingyao (1969-1979), Hao Shengwang (1979-1983) and Zhang Juhui (1983-1992) separately took the post of the Commander of the Guangdong Provincial Military District.

#### Wen Yuzhu Became Commander of Guangdong Provincial Military District At the Age of 49

In 1992, Wen Yuzhu replaced Zhang Juhui as Commander of the Guangdong Provincial Military District. He was 49 years old at that time.

Wen Yuzhu is the second commander of the Guangdong Provincial Military District, who is a native of Guangdong. (The other one was Ye Jianying in the 50's.) All other commanders Long Shujin, Huang Ronghai and Hao Shengwang who were born in other provinces came from the 43d Corps. He Dongsheng came from the 38th Corps, and Zhang Jingyao hailed from the 42d Corps. With the exception of He Dongsheng, all others later became commanders of the 42d Corps.

**Wen Yuzhu Joined the Army in 1961**

Wen Yuzhu was born in Lianjiang County, Guangdong, in September 1943.

He joined the PLA in July 1961 when he was 18 years old. After joining the army, he became a reconnaissance company fighter and squad leader of the PLA 215th army infantry division.

The 215th division was originally a Chen Mingren's division which renounced its allegiance to the Kuomintang and surrendered to the Chinese Communists in Changsha. (This division was originally under the command of the Kuomintang's First Army.) In November 1949, the 215th Division was officially reorganized into the 215th Division under the command of the 52d Corps of the PLA 21st Army with Wang Jinxiu as the army's commander, Yang Shugen as its deputy political commissar, Wu Linhuan and Zhang Chengwen as its deputy commanders, Zhou Zhifei as its Chief-of-Staff and Zhong Mingbiao as the director of its political department. The commander of the 215th Division was Zhang Jingyao and the division political commissar was Jiang Tengjiao.

On 2 September 1951, the headquarters of the 52d Corps and that of the 53d Corps (another corps of the 21st Army) were rescinded. The 215th Division was placed under the direct command of the 21st Army. On 15 March 1952, the 21st Army Headquarters and the 214th Division and the 217th Division under its command were reorganized to become the PLA unit of the South Central Military region for the development of the Jing River flood-diversion project (A water conservancy project). The other two divisions (the 215th Division and the 219th Division) and some military establishments of the 21st Army, the 144th Division of the 48th Corps and the 145th Division of the 49th Corps formed a new 21st Army. (The Army Headquarters was renamed from the former 48th Corps Headquarters.) At that time, the 144th Division, the 215th Division and the 219th Division under the command of the 21st Army and the 145th Division originally under the command of the 49th Corps were separately incorporated into the 215th Division and the 219th Division. At that moment, the 21st Army was no longer the same one composed of those troops which renounced their allegiance to the Kuomintang.

In November 1952, the 21st Army was reorganized to become the 55th Corps. Commander of the corps remained to be Chen Mingren. Political Commissar of the corps Wang Zhengqian was formerly a Kuomintang officer of the Northeastern Army who secretly joined the CPC in 1936. After the liberation, he assumed the post of the director of the political department of the 50th Corps and the political commissar of the 53d Corps. Later, the 55th Corps was stationed in Western Guangdong for a long time

became a deputy battalion commander of the 493d Regiment, 165th Division, 55th Corps after 1969. After 1971, he became deputy chief and then chief of the reconnaissance section of the 165th Division. After 1973, he became deputy regiment commander and concurrently Chief-of-Staff of the 495th Regiment of the 165th Division. He became a regiment commander of the 495th Regiment after 1975.

**Promoted to Deputy Commander of 55th Corps in 1984**

Wen Yuzhu participated in the battle of self-defense in the Sino-Vietnamese border areas in 1979. In the same year, he was promoted to deputy commander of the 165th Division of the 55th Corps. He enrolled in the PLA Military Academy between 1980 and 1982 to further his studies. After graduating in 1983, he was appointed Chief-of-Staff of the PLA 55th Army Corps. After a year, he was promoted to deputy commander of the 55th Corps.

Deng Xiaoping cut the members of China's armed forces by one million in 1985 and reduced the authorized size of the military personnel of the Chinese Communists' three branches of services by nearly 50 percent. The original 11 major military districts were merged and reduced to seven. The number of military units at and above the corps level were reduced by 31. The designation of the 55th Corps was rescinded.

**Transferred To Become Deputy Commander of 42d Corps in 1985, Stationed in Guangdong**

In 1985, Wen Yuzhu was transferred to the 42d Group Army to be its deputy commander.

The 42d Corps which was renamed from the Fifth Column of the Northeast Field Army on 17 November 1948 had fought in the Liaoxi-Shenyang Campaign, the Beijing-Tianjin Campaign and the Anyang-Xinxiang Campaign, the campaign to attack the Funiu Mountains and the Southwest China Campaign. Between October 1950 and November 1952, the 42d Corps participated in the Korean War. This corps was a relative new PLA unit when it was under the command of the Fourth Field Army, but it had gradually become a crack force after fighting so many battles. It returned to China in November 1952, and was stationed in Guangdong for a long time. In March 1979, this corps joined the battle of counterattack in self-defense in the Sino-Vietnamese border areas, and captured Dong-deng. It was renamed to become the 42d Group Army after July 1985.

**Promoted to Commander of 42d Group Army in 1990**

After the Chinese Communists restored its military rank system in 1988, Wen Yuzhu was conferred the rank of

the Guangdong Provincial Military District in 1992. (Gong Gucheng replaced him as the commander of the 42d Group Army.) Wen Yuzhu's partner in the provincial military district was Maj. Gen. Zhang Hongyun who took the post of political commissar of the military district since 1989. Zhang has distinguished himself in the Guangzhou Military Region and even in the whole country as a hardworking person who remains honest and upright.

#### **Become Standing Committee Member of Guangdong Provincial CPC Committee**

At the First Session of the Seventh Guangdong Provincial CPC Committee held in May 1993, Wen Yuzhu was once again elected standing committee member of the Guangdong Provincial CPC Committee. Also elected standing committee members of the provincial CPC committee at that time were Deputy Secretary of the provincial CPC

the Provincial CPC Committee and Governor of Guangdong Zhu Senlin (October 1930); Deputy Secretary of the provincial CPC committee Zhang Guoying (March 1937); Head of the Organization Department of the provincial CPC committee Fu Rui (November 1940); Permanent Vice Governor Lu Ruihua (November 1938); Secretary of the Guangzhou City CPC Committee Gao Siren (March 1944); Secretary of the Shenzhen City CPC Committee and Mayor of Shenzhen Li Youwei (January 1938); Secretary of the Zhuhai City CPC Committee and Mayor of Zhuhai Liang Guangda (November 1935); Vice Governor of Guangdong Lu Zhonghe (August 1940); Vice Governor of Guangdong and concurrently Chairman of the provincial planning commission Zhang Gaoli (November 1946); Vice Governor of Guangdong Ou Guangyuan (February 1948); and director of the provincial public security department Chen Shaoji (September 1945) and others.

investments went to the mainland. Firms desirous of investing in the mainland in the next three years exceed 50 percent in both number and amount. Minister of Economic Affairs Chiang Pin-kun yesterday (29th) indicated that this trend is not easy to overlook, but at the present stage the mainland economic and trade policy "that takes into consideration stable and healthy progress in both national security and the laws of the market" cannot be changed.

When this Ministry of Economic Affairs survey was conducted in January of this year, the Qiandao Lake Incident still had not occurred and the government's southern orientation policy still had not been announced. Whether

Region	1.81	2.13
Singapore	1.81	1.48
Britain	1.03	0.99
Germany	1.03	0.82
Central and South America	0.72	0.74
Canada	0.72	0.41
Mexico	0.41	0.49
Africa	0.31	0.16
Oceania	0.21	0.25
France	0.26	0.16
Other Regions	4.12	5.84

percent to 61 percent. Minister of Economic Affairs Chiang Pin-kun is rather concerned about the causes of this.

Head of the Ministry of Economic Affairs Statistical Department Yang Tsai-yuan indicates that the ever expanding scale of investment in the mainland by Taiwan firms causes firms to purchase raw materials on site. Although this can reduce firms' production costs, in the future it could affect Taiwan's export trade accounts. For a time, exports will continue to grow and Taiwan's control of key spare parts and research and development will be accelerated.

Yang Tsai-yuan also analyzed that as regards finished products the domestic resale ratio is about 10 percent. In the mainland the local sales share is about 35 percent, and 53 percent of finished products are shipped to third countries. Obviously the Taiwan firms go to the mainland to invest mainly for foreign sales of products. However, with the opening up of the mainland market, the ratio of internal sales of Taiwan firms is increasing from year to year.

The International Trade Office of the Ministry of Economic Affairs indicated yesterday that Chinese Communist authorities are implementing financial retrenchment measures and are levying a value added tax to the disadvantage of firms making investments. Taiwan firms should be cautious about going to the mainland to invest.

Chuang Cheng-yuan, the head of the data organization of the National Trade Office, indicated that there are several uncertain factors in investing in the mainland. At the beginning of this year, the Chinese Communist authorities levied a value added tax. Imported products must pay a value added tax equivalent to 70 percent of the custom value, adding to import costs.

Firms investing in the mainland often import raw materials from Taiwan, process them, and resell them externally. Chuang Cheng-yuan indicated that after the Chinese Communists levied the value added tax, the cost of importing raw materials increased. This can be seen from the cross-strait transshipment export trade figures from January to April of this year. The growth of the transshipment figures from Taiwan to the mainland has tended to slow, affected by the value added tax, causing Taiwan firms investing in the mainland to have no way of further importing Taiwan raw materials.

The Chinese Communists' practice is in the hope of encouraging the development of their own industries, but they cause manufacturing costs to increase and the price of imports to rise, and they can cause inflation and produce several side effects. Chuang Cheng-yuan said that mainland cost of living indicators are steadily rising, the balance of revenues and expenditures is worsening, and there are quite a few economic problems. Taiwan firms should not be overly optimistic about the mainland investment environment.

Data from a popular survey commissioned by the Executive Yuan's Mainland Affairs Council (MAC) from Chengchi University's Election Research Center indicates

that since the Qiandao Lake Incident, the people of the Taiwan region hold a more conservative attitude toward cross-strait economic and trade exchanges, including introducing mainland labor, opening up imports of mainland products, and cross-strait air traffic, than before the incident, indicating that the Qiandao Lake Incident really did produce a very great uncertainty in the Taiwan people toward cross-strait exchanges.

Between 23 and 27 April a total of 1,443 people were interviewed face to face or telephone messages were left, for an effective sample of 959, 74.1 percent.

In the data of this popular survey on people's views toward cross-strait economic and trade exchanges as regards the issue of introducing mainland labor, after the Qiandao Lake Incident occurred, the ratio of those advocating that "we should not open up" and "it is temporarily not appropriate to open up" increased from the previous 47.8 percent to 63.5 percent, and those advocating "limited opening up" and "large-scale opening up" declined from the previous 40.1 percent to 31 percent.

As regards the issue of opening up to the import of mainland products, after the Qiandao Lake case occurred, those inclined to not want to open up increased from the previous 27.4 percent to 37.5 percent and those inclined toward opening up declined from the previous 58.5 percent to 54 percent.

As regards cross-strait air traffic, those advocating "unconditional air traffic" declined from the previous 8.6 percent to 5.3 percent, those advocating "absolutely no possibility of air traffic" increased from the previous 8.5 percent to 15.3 percent, and those advocating "conditional air traffic" increased from the previous 61.5 percent to 64 percent.

The people's views on cross-strait political relations can be seen in their views of the government persisting in the "three noes" principle. Those people interviewed after the Qiandao Lake case occurred believing that persisting in the three noes principle "is not necessary" declined from the previous 52.1 percent to 44.4 percent and those believing that "it is necessary" increased from the previous 15.2 percent to 25.7 percent.

#### Editorial Views Agricultural Prospects

94CE0646A Taipei CHING-CHI JIH-PAO in Chinese  
1 Jul 94 p 2

[Editorial: "The Essential Way of Action After Joining GATT"]

[Text] The third nationwide agricultural conference, which had been called to face up to the situation of agriculture that would result from entry into GATT, came to several important conclusions after two days of group discussions. Its sessions ended this Tuesday (28 June). President Li Teng-hui and Executive Yuan President Lien Chan personally addressed the conference, and Hsiao Wan-chang [5618 8001 7022], chairman of the Council for Economic Planning and Development, gave a speech on the special

subject of the conference, indicative of the great importance that senior members of the governments attached to the conference. Apart from its responsibility for overall economic planning and deliberation of policy, the Council for Economic Planning and Development has the additional duty to comprehensively plan and coordinate all work in connection with the country's entry into GATT. It is for this reason that Hsiao Wan-chang's topical speech, in which he pointed out the relevant direction for agriculture to take after entry into GATT, has had everyone's serious attention. Hsiao Wan-chang pointed out that the structural readjustment of agriculture necessary to cope with the situation on the country's entry into GATT will necessitate a large-scale relocation of the peasant population. He hoped that in the coming 10 years it will be possible, through active measures of removing people from agricultural pursuits, to reduce Taiwan's agricultural population from the present 12 percent of the entire working population to the 3 percent level of Europe's small agricultural states. These are only two simple figures, but they are of a far-reaching significance in three respects: First, the reduction of the ratio of people employed in agriculture will lighten the burden for the entire economy; second, the resources that will be freed by the reduction of the peasant population can be used for a rational distribution of the entire available resources; third, a reduction of the peasant population will enable farm operations on a more extended scale, will reduce costs, and enhance productivity. It would be the only adequate methods to raise competitiveness and overcome adverse reactions that might result from entry into GATT. However, how to put the plan into effect and how to make it at all possible are problems that will require coordination among all quarters, careful and skilful planning, and conscientious execution with full vigor and urgency.

Taiwan's agricultural population peaked in 1965 with 1.75 million. Thereafter it began to drop until it is now around 1 million. Thus it took 29 years to drop by about 750,000, i.e. at an annual rate of 26,000, accounted for in part by retirement due to old age, transfers to other employment, and in the natural course of things, without much of an adverse reaction. However, reducing the ratio of agricultural employment from 12 to 3 percent in the next 10 years would mean—calculated on the basis of 1 million persons—that 700,000 persons, or an annual average of 70,000, will have to be released, which is three times the average annual rate of the past, and although one part will consist of old-age retirees, the bulk will require relocation. This section of people will have to face and overcome two difficulties: First, peasants that will need relocation will be of advanced age, and their retraining for new employment, i.e. the achievement of the objective of relocation, will be problematic. Second, past releases of agricultural population occurred just in times of rapid industrial development which required much additional manpower, so that unemployment did not appear a problem. However, at the present time, industrial employment is declining, and requirements are for high-quality manpower, which is not what the manpower, that will presently be released, will be

qualified for. Industrial manpower released by the government with it for employment purposes is not always careful and skillful enough to cope with the same unemployment problem, which is therefore be handled.

As for the resources apart from manpower, there are other resources, and these are much in demand by agriculture, especially effective utilization of land, which is being held by speculators, and the like. These are truly needed to advance and safeguard agriculture.

Expanding the scale of agriculture and enhancing production of efforts by Taiwan's farmers, whose results have not been fully utilized, each single peasant farmer having 0.68 hectares of arable land, from the 0.68 hectare to 1.0 hectare, are reasons for this fact.

1. Farmland was mainly owned by peasants, who will rather sell such land.
2. If farmland could be converted into non-agricultural land, land for residential purposes, and so on, people will therefore be awaiting the opportunity.
3. Rigid laws and regulations do not allow peasants to sell land once it has been converted.
4. Although repeated attempts have been made to increase the scale of agriculture, the results offered sufficient incentives, and respect has been shown to the farmers.

However, if the agricultural population in Taiwan can be reduced from 1 million to 300,000, and 160,000 persons released, each peasant farmer will have 1.0 hectare of arable land. This is more than twice as much as the 0.68 hectares more than land per capita achieved during the past 20 years. In order to overcome the above difficulties, a sound system of agriculture must be established, how, during the next 10 years, to expand agricultural operations and expand the speed. At the same time, agricultural research must be effectively coordinated to develop high-quality manpower, the rapid expansion of agricultural operations, and continuously enhance productivity.

his or her 18th birthday.

- (2) When they are given housing assignments or allowed to purchase a residential house or a lot for housing.

Bonuses should be paid by the original unit.

- (6) Bonuses to farmers should be paid by the people's government of the town or township where they reside.

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JPRS-CAR-94-045  
19 August 1994

## TAIWAN

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suitable for cultivation. These tasks require not only careful and skillful advance planning, but also large amounts of investments; the government must rank them as major items of its administrative concerns at the present time.

Although the third all-Taiwan agricultural conference has arrived at a variety of important conclusions, we still believe that reducing agricultural manpower, enlarging the scale of farm operations, strengthening research and development, reducing costs, and enhancing productivity are essentially the only ways to overcome the difficulties that will have to be faced on entry into GATT.

### Commentary on 3d Stage of Constitutional Reform 94CM0349B Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 373, 7 May 94 p 7

[Article by Chou T'ien-jui (0719 1131 3843): "Is Taiwan Entering a New Dynastic Era"]

[Excerpt] [passage omitted] This reform of the national constitution seems to have intentionally avoided important issues, but they have drawn everyone's attention to these important issues—Before the meeting opened, they adopted the thought of limiting the exemption for the speech of delegates, feeding desire for good food in public speaking circles. After the meeting opened, they also offered overseas Chinese the inducement of the possibility of having the right to vote for president and vice president, enticing everyone to forget the quarrels. Thus far, various types of people who by nature like to make a fuss over trifling matters have indeed fallen into the trap and do not have any spare energy to haggle further over basic issues of constitutional systems.

Actually, despite the fact that legislative bosses have gone to extremes to disgust people, they have not been able to use the constitution to limit delegates' speech exemption. This is an extremely obvious principle. And despite the fact that with direct election of the president by all the citizens, it is not at all suitable to exclude citizens located outside the country, because we have diplomatic relations with hardly any countries, it ultimately cannot help but be an illusion and castles in the air. On these two subjects, no

matter how you turn it, it only wastes everyone's precious intelligence and time for nothing—still convincing people of the first class politicians' ability to mess things up.

The real key issues are: with expanded presidential powers how to seek a corresponding balance of powers. With expanded National Assembly powers, how to orient the functions of the Legislative Yuan and the National Assembly. With direct election of the president by all the people, how the right of recall does not belong to all the people. With the countersigning authority of the president of the Executive Yuan weakened, how to correspondingly adjust the constitutional system and spirit. With the considerable affect of revision of articles of the constitution, why it still is called a "minor revision." All of these have become subjects that most people are disinclined to talk about and disinclined to pay attention to.

Surveying society on revision of the constitution, the entire political reaction probably could be divided into three types:

The first is indifference: After the boiling fervor of recent years and the observations within the fervor, the political attitude has become even more indifferent than before. Before it was fear of talking about politics. Nowadays it is essentially pooh-poohing and even ridiculing, objecting to wasting their energy.

The second is resentment: educated people and people with political concepts talk a great deal, but they discover that it is always like "a dog barking at a train," and they even are ignored. Occasionally they sound off, but most of the time they feel totally powerless. They feel that it is harder than before to influence current politics.

The third is new centralism: to achieve practical aims, they are not adverse to hanging on to people of influence. The only lead horse for the new centralism is reverence. There are those who have no sense of morality, there are those who rush to compete to seek advantages for themselves by any means, and there are those who have sweet words and insinuating mannerisms. But there also are the type who tacitly believe that the Chinese people are by nature not suited to democracy, using the excuse of consolidating the new rulers or that it can be advantageous to the masses. [passage omitted]

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